ANNUAL REPORT 2012

Investec Limited group and company
annual financial statements

2012

Out of the Ordinary®

Investec

Specialist Bank and
Asset Manager

Corporate information

Secretary and registered office

Benita Coetsee
100 Grayston Drive
Sandown Sandton 2196
PO Box 785700 Sandton 2196
Telephone (27 11) 286 7957
Facsimile (27 11) 291 1806

Internet address

www.investec.com

Registration number

Reg. No. 1925/002833/06

Auditors

Ernst & Young Inc.
KPMG Inc.

Investec directors

Refer to pages 100 to 102.

Transfer secretaries

Computershare Investor Services (Pty) Limited
70 Marshall Street
Johannesburg 2001
PO Box 61051
Marshalltown 2107
Telephone (27 11) 370 5000

Investec offices – contact details

Refer to page 186.

For queries regarding information in this document

Investor Relations

Telephone (27 11) 286 7070
e-mail: investorrelations@investec.com
Internet address:
www.investec.com/en_za/#home/investor_relations.html

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1

Investec in perspective

Investec in perspective

Who we are

Investec (comprising Investec plc and Investec Limited) is an international, specialist bank and asset manager that provides a diverse range of financial products and services to a select client base.

Founded as a leasing company in Johannesburg in 1974, we acquired a banking licence in 1980 and were listed on the JSE Limited South Africa in 1986.

In July 2002, we implemented a dual listed companies (DLC) structure with linked companies listed in London and Johannesburg. A year later, we concluded a significant empowerment transaction in which our empowerment partners collectively acquired a 25.1% stake in the issued share capital of Investec Limited.

Since inception, we have expanded through a combination of substantial organic growth and a series of strategic acquisitions. Today, we have an efficient integrated international business platform, offering all our core activities in the UK and South Africa and select activities in Australia.

Mission statement

We strive to be a distinctive specialist bank and asset manager, driven by commitment to our core philosophies and values.

What we do

We are an international specialist bank and asset manager that provides a diverse range of financial products and services to a niche client base in three principal markets, the UK, South Africa and Australia as well as certain other countries. Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

Our strategic goals and objectives are based on the aspiration to be recognised as a distinctive specialist bank and asset manager. This distinction is embodied in our entrepreneurial culture, which is balanced by a strong risk management discipline, client-centric approach and an ability to be nimble, flexible and innovative. We do not seek to be all things to all people and aim to build well-defined, value-added businesses focused on serving the needs of select market niches where we can compete effectively.

Values

Distinctive performance
- Outstanding talent – empowerment, enabled and inspired
- Meritocracy
- Passion, energy, stamina, tenacity
- Entrepreneurial spirit

Dedicated partnership
- Respect for others
- Embrace diversity
- Open and honest dialogue
- Unselfish contribution to colleagues, clients and society

Client focus
- Distinctive offering
- Leverage resources
- Break china for the client

Cast-iron integrity
- Moral strength
- Risk consciousness
- Highest ethical standards

Philosophies

- Single organisation
- Meritocracy
- Focused businesses
- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance.

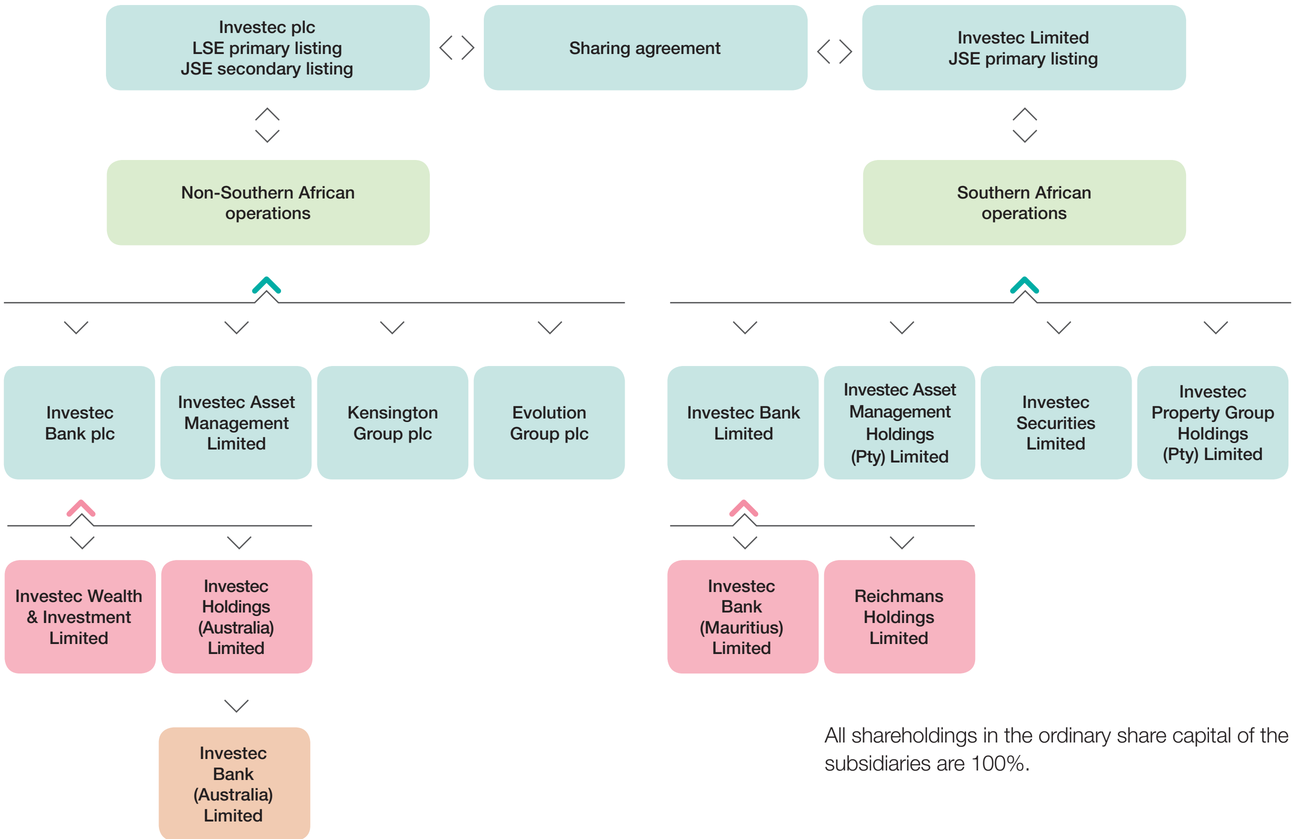
Overview of Investec's and Investec Limited's organisational structure

Operational structure

During July 2002 Investec Group Limited (since renamed Investec Limited) implemented a dual listed companies (DLC) structure and listed its offshore business on the London Stock Exchange. A circular on the establishment of our DLC structure was issued on 20 June 2002 and is available on our website.

In terms of the DLC structure, Investec Limited is the controlling company of our businesses in Southern Africa and Mauritius and Investec plc is the controlling company of our non-Southern African businesses. Investec Limited is listed on the JSE Limited South Africa and Investec plc is listed on the London Stock Exchange.

Our DLC structure and main operating subsidiaries as at 31 March 2012



All shareholdings in the ordinary share capital of the subsidiaries are 100%.

Investec Limited, which houses our Southern African and Mauritius operations, has been listed in South Africa since 1986.

Salient features of the DLC structure

- Investec plc and Investec Limited are separate legal entities and listings, but are bound together by contractual agreements and mechanisms
- Investec operates as if it is a single unified economic enterprise
- Shareholders have common economic and voting interests as if Investec plc and Investec Limited were a single company
- Creditors, however, are ring-fenced to either Investec plc or Investec Limited as there are no cross guarantees between the companies.

Overview of the activities of Investec Limited

Overview of the activities of Investec Limited

Investec Limited operates as a specialist bank and asset manager in Southern Africa. The three principal business units of Investec Limited are discussed below.

Investec Asset Management

At Investec Asset Management, our business is to manage clients' investments to the highest standard possible by exceeding their investment and client service expectations. As at 31 March 2012, Southern African assets under management amounted to R311.7 billion, we manage these assets on behalf of our clients from around the world who are invested in our seven core investment capabilities. Employing over 140 investment professionals, we manage our investments from two investment centres (London and Cape Town) serving our client base from seven distinct client groups.

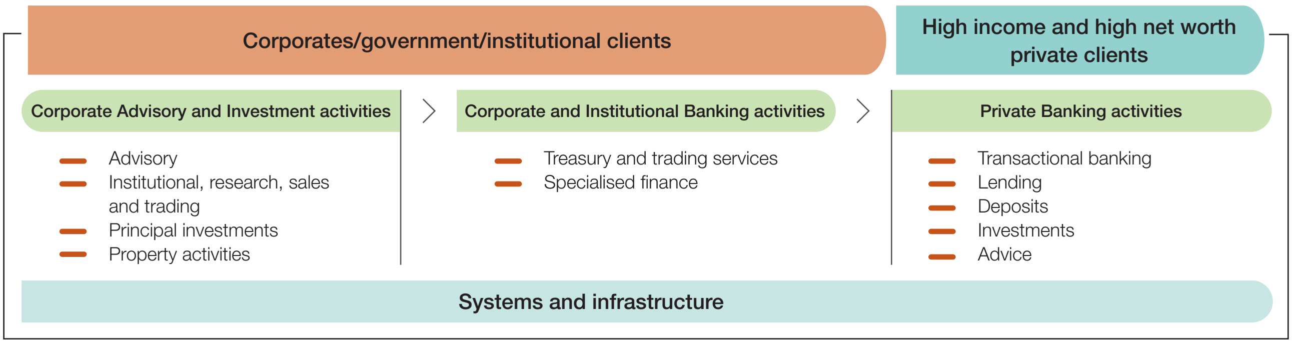
Established in 1991, we have grown largely organically from domestic roots in Southern Africa and are still managed by our founding members, representing continuity and stability throughout our growth.

Wealth & Investment

Investec Wealth & Investment South Africa provides portfolio management, wealth management and stockbroking services to private clients, charities, pension funds and trusts. Over 290 staff operate from eight offices across South Africa, with R26.8 billion of funds under full discretionary management and a further R142.5 billion of funds under various other forms of administration. The Investec Wealth & Investment operation is one of South Africa's leading private client investment management businesses.

Specialist Banking

The bank operates as a specialist bank, focusing on three key areas of activity: Corporate Advisory and Investment activities, Corporate and Institutional Banking activities and Private Banking activities. Each business provides specialised products and services to defined target markets. Our head office also provides certain group-wide integrating functions including risk management, information technology, finance, investor relations, marketing, human resources and organisational development. The head office is also responsible for our central funding.



Corporate Advisory and Investment activities

Corporate Advisory and Investment engages in a range of investment banking activities and positions itself as an integrated business focused on local client delivery with international access. We target clients seeking a highly customised service, which we offer through a combination of domestic depth and expertise within each geography and a client-centric approach.

Our activities include: advisory; institutional research, sales and trading and principal investments.

Our target market includes: listed and unlisted companies, fund managers, government and parastatals.

Property activities

Investec Property is one of South Africa's pre-eminent property operations. This business has built strong expertise within the specialist areas of:

- Property fund and asset management

  We manage property portfolios to maximise returns and capital growth of property assets over time

- Development

  We develop, redevelop and refurbish properties within the office, retail, industrial, residential and land conversion sectors using our extensive experience and skill

- Trading and acquisitions

  The division sources buildings or land opportunities with the specific intention of adding or unlocking value and ultimately trading the assets in order to optimise the return.

Corporate and Institutional Banking activities

Corporate and Institutional Banking provides a wide range of specialist products, services and solutions to select corporate clients, public sector bodies and institutions. The division undertakes the bulk of Investec's wholesale debt, structuring, proprietary trading, capital markets and derivatives business.

Private Banking activities

Private Banking positions itself as the 'investment bank for private clients', offering both credit and investment services to our select clientele.

Through strong partnerships, we have created a community of clients who thrive on being part of an entrepreneurial and innovative environment. Our target market includes ultra high net worth individuals, active wealthy entrepreneurs, high income professionals, owner managers in mid-market companies and sophisticated investors.

Through strong partnerships, we have created a community of clients who thrive on being part of an entrepreneurial and innovative environment.

Financial review

Snapshot of the year and strategic focus

Highlights

- Headline earnings attributable to ordinary shareholders increased 12.6% to R2 392 million (2011: R2 124 million)
- We have maintained revenues despite difficult markets with the quality of earnings improving substantially as we have continued to grow the proportion of revenues derived from capital light, non-lending activities
- The asset management and wealth management businesses account for 32.0% of the group's operating profit (2011: 30.4%)
- Activity levels within the Specialist Bank showed improvement, with the private banking, corporate banking and advisory businesses performing well
- Net interest income increased by 8.2% to R4 085 million and net fees and commissions increased by 16.7% to R4 234 million
- Investment income decreased by 38.8% to R758 million
- Impairments on loans and advances decreased by 4.2% with the credit loss charge improving from 0.71% at 31 March 2011 to 0.65%
- The bank has maintained a strong capital and liquidity position:
  - Tier 1 ratio of 11.6%
  - Cash and near cash balances rose 31.3% to R69.1 billion
  - Customer deposits increased by 14.0% to R176.1 billion
  - The ratio of loans and advances to deposits improved from 74.1% to 69.6%
  - Low gearing ratios, core loans and advances to equity remained flat at 5.8 times.

Momentum in realigning our business model continues…

3

Financial features

	31 March 2012	31 March 2011	% change
Operating profit before goodwill, non-operating items and taxation (R'million)	3 328	3 305	0.7%
Headline earnings attributable to ordinary shareholders (R'million)	2 392	2 124	12.6%
Cost to income ratio	56.7%	55.8%	
Total capital resources (including subordinated liabilities) (R'million)	31 870	27 648	15.3%
Total equity (R'million)	22 242	20 782	7.0%
Total assets (R'million)	348 076	307 475	13.2%
Net core loans and advances (R'million)	128 747	120 784	6.6%
Customer accounts (deposits) (R'million)	176 094	154 504	14.0%
Cash and near cash balances (R'million)	69 077	52 591	31.3%
Third party assets under management (R'million)	482 015	464 348	3.8%
Capital adequacy ratio	16.1%	15.9%	
Tier 1 ratio	11.6%	11.9%	

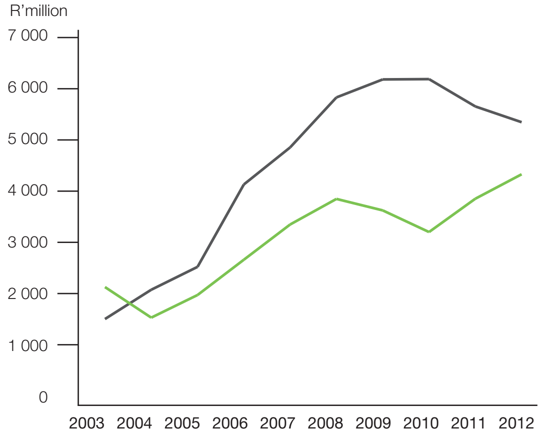
We have realigned our business model by building capital light revenues

Sustainable business model

Capital light businesses
R4 288 million
45%
of total revenue

Net fees and commissions of
R4 234 million
44% of total

Other of
R54 million
1% of total



Capital intensive businesses
R5 296 million
55%
of total revenue

Net interest income of
R4 085 million
43% of total

Investment income of
R758 million
8% of total

Trading income of
R453 million
4% of total

Third party asset management and advisory revenue

- Asset management
- Wealth management
- Advisory services
- Transactional banking services
- Property funds

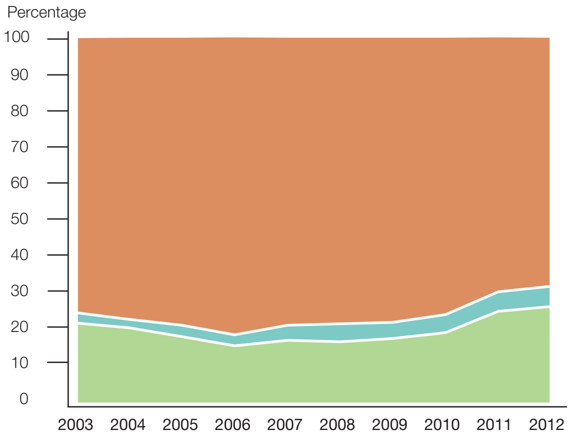
- Containing costs
- Maintaining credit quality
- Strictly managing risk and liquidity

Net interest income, investment and trading income

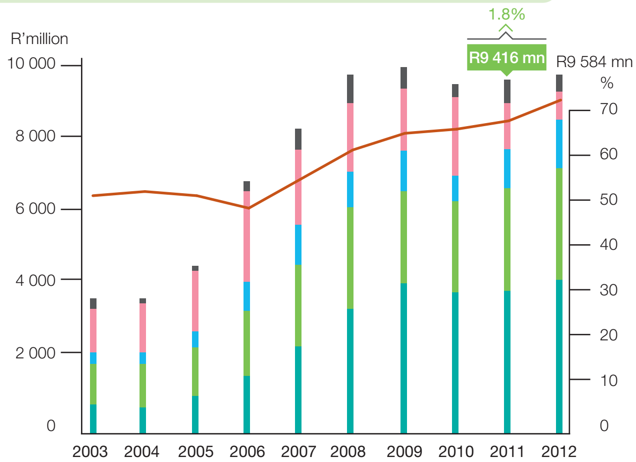
- Lending portfolios
- Investment portfolios
- Trading income arising from client flow
- Trading income arising from balance sheet management and other trading activities

Three distinct business areas supporting a large recurring revenue base

Contribution to operating profit before taxation*



Total operating income



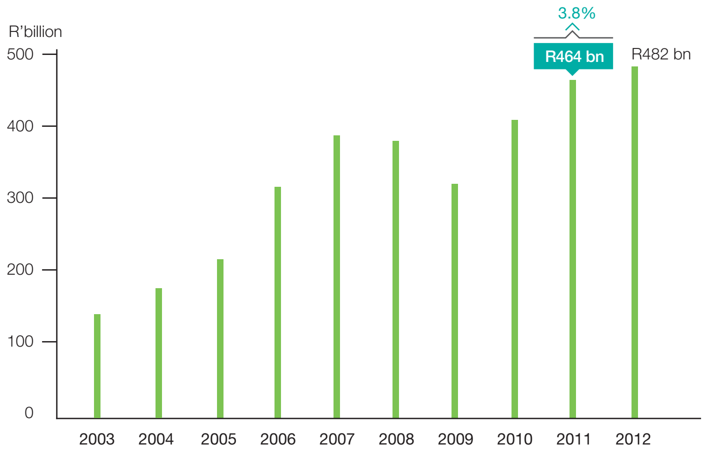
* *Before goodwill, non-operating items and after non-controlling interests.*

Where recurring income is net interest income and annuity fees and commissions.

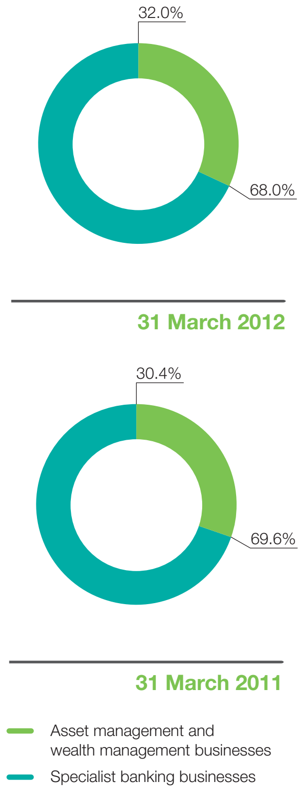
Focus on building third party assets under management continues…

- Investec Asset Management globally reported net inflows of approximately R62 billion for the year.

Total third party assets under management for Investec Limited

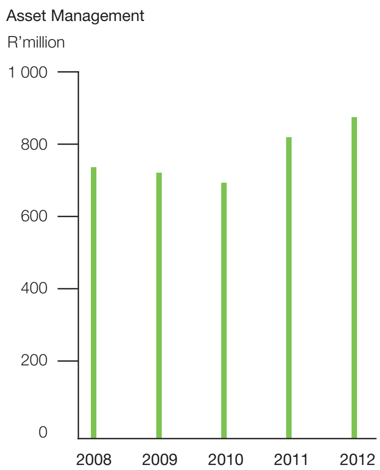


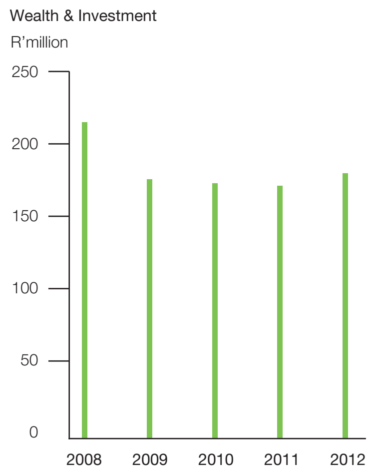
Contribution to group earnings

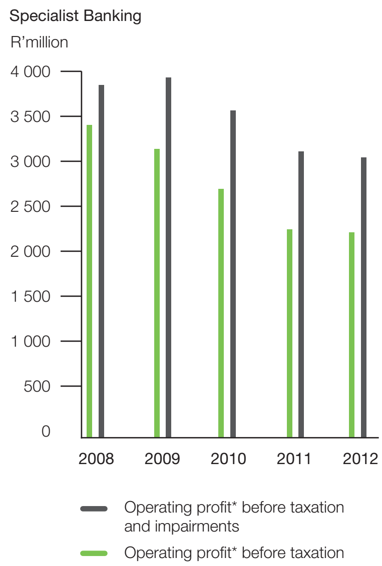


Specialist Banking has been held back by elevated impairments and a weaker performance from investment portfolios

Operating profit* before taxation by business





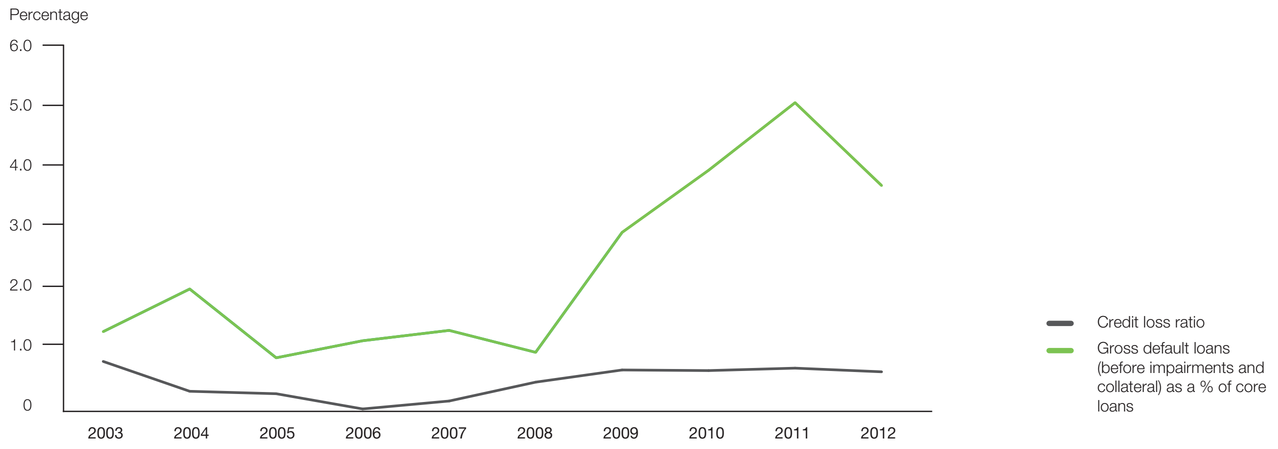


* *Before goodwill, non-operating items and after non-controlling interests.*

Overall level of defaults and impairments are much improved…

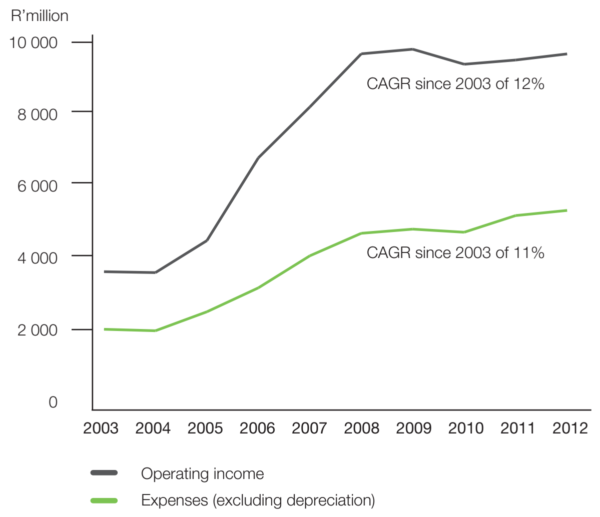
- Credit quality on core loans and advances has improved during the year in review
- Core loans and advances increased by 6.6% to R128.7 billion
- Default loans (net of impairments) as a percentage of core loans and advances decreased from 3.97% to 2.73% as some transactions have been settled and others have been written off
- The credit loss ratio improved from 0.71% to 0.65%
- The majority of defaults relate to private client loans. These defaults largely comprise a relatively small number of clients where finance was provided at reasonably conservative loan to values but with no obvious serviceability except realisation of collateral
- The Corporate Client division reported one material default for the year and a settlement of a historical default exposure
- Net defaults (after impairments) remain fully collateralised.

Asset quality ratios

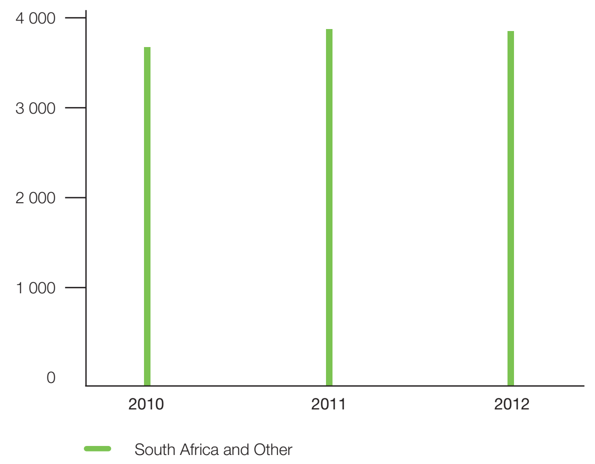


Costs relative to revenue deteriorated slightly… but our cost to income ratio is still within our target range

Cost to income ratio 56.7% (2011: 55.8%)



Headcount* relatively stable



* *Permanent headcount.*

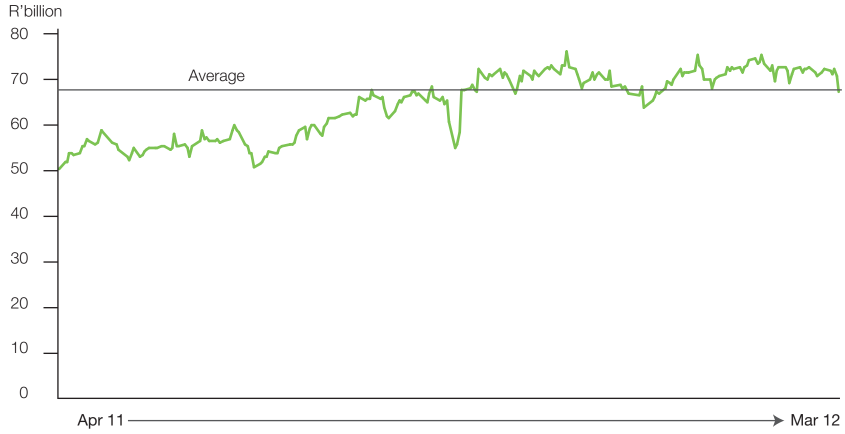
Sound capital and liquidity position maintained…

Capital adequacy and tier 1 ratios

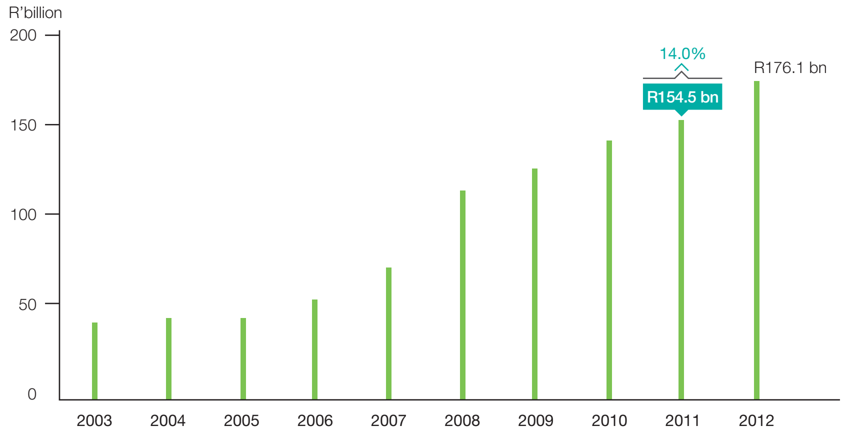
	31 March 2012		31 March 2011	
	Capital adequacy ratio	Tier 1 ratio	Capital adequacy ratio	Tier 1 ratio
Investec Limited	16.1%	11.6%	15.9%	11.9%
Investec Bank Limited	16.1%	11.4%	15.6%	11.5%

…and benefited from increased customer deposits and cash balances

Cash and near cash trend



Customer accounts (deposits)



Sound capital and liquidity position maintained… achieved capital targets

- The intimate involvement of senior management ensures stringent management of risk and liquidity
- Our policy has always been to hold capital in excess of regulatory requirements and we intend to perpetuate this philosophy
- Investec has maintained a strong capital base and has met its targets in this period
- A well established liquidity management philosophy remains in place
- Continue to focus on:
  - Maintaining a high level of readily available, high quality liquid assets – representing 25% to 35% of our liability base
  - Diversifying funding sources
  - Limiting concentration risk
  - Reduced reliance on wholesale funding
- Benefited from growing retail franchise and recorded an increase in customer deposits
- Advances as a percentage of customer deposits is at 69.6% (2011: 74.1%).

Investec's sustainability philosophy is based on the recognition that we are a specialist bank and asset manager driven by our commitment to our culture and values.

Sustainability at Investec is a key strategic issue and is about:

- Managing and positioning the group for the long term
- Building a sustainable business model that allows Investec to make a valuable contribution to society, to macro-economic stability and to our environment
- Developing a strong, diverse and capable workforce
- Growing and preserving clients and stakeholders' wealth based on strong relationships of trust.

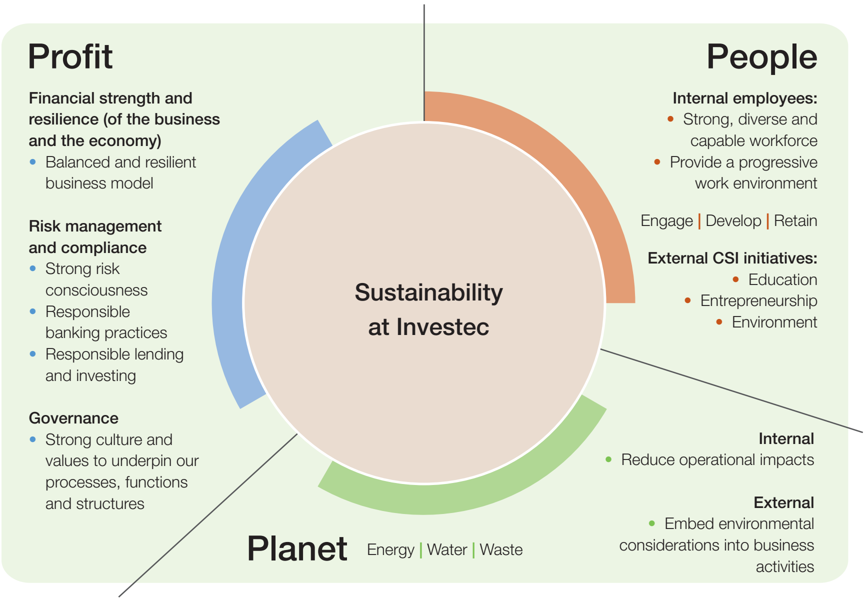
Dow Jones Sustainability Indexes
Member 2011/12

JSE JOHANNESBURG STOCK EXCHANGE
SRI Index

FTSE4Good

Sustainability considerations

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through entrepreneurship and education and leveraging the value in our diversity. We recognise the challenges that climate change presents to the global economy and we will consider supporting any meaningful activity that either reduces the negative impact or prolongs the life of our planet.



Non-financial performance highlights for Investec Limited

	31 March 2012	31 March 2011
Social		
Training spend on employees (R'million)	100.6	92.2
Corporate social investment spend (R'million)	34.1	38.4
Environmental		
Carbon emissions per full-time employee (CO_2 metric tonnes)	12.73	11.19
Carbon emissions per m^2 of office space (CO_2 metric tonnes)	0.53	0.46

Highlights from the year

- We implemented a sustainability reporting system that will collect and measure our non-financial data to ensure consolidation and alignment across the group
- Energy efficient installations and upgrades were done at two Investec office buildings, in Sandton and Pretoria, which resulted in electricity savings equivalent to power the lights of about 5 280 average homes in South Africa
- Investec received first prize in BANKSETA's skills@work 'large employers' category for our efforts in skills development within the financial services sector in South Africa
- We completed our second Department of Trade and Industry BEE verification according to the generic codes and were awarded level 3 rating status by Empowerdex, an improvement of 8.04 points
- Investec Energy Finance concluded a 15-year €50 million Climate Action Framework Loan Facility with the European Investment Bank (EIB) to be used for funding energy-efficient and clean energy projects in South Africa. We also agreed to partner with BirdLife South Africa to fund research on the environmental impact of renewable energy on local birdlife.

We pursue this strategy through an emphasis on…

Investec strives to be a distinctive specialist bank and asset manager, driven by commitment to its core philosophies and values.

3

The Investec distinction

Client focused approach

- Clients are at the core of our business
- We strive to build business depth by deepening existing client relationships
- Distinction lies in our ability to be nimble, flexible and innovative, and to give clients a high level of service.

Specialised and focused strategy

- Not all things to all people
- Serve select market niches as a focused provider of tailored structured solutions
- Strategy is to enhance our existing position in principal businesses and geographies.

Sustainable business model

- Build a sustainable business model by balancing operational risk activities with financial risk activities
- Organic growth and select bolt-on acquisitions
- Contain costs and strictly manage risk, capital and liquidity
- Committed to creating value for shareholders.

Depth of leadership and entrepreneurial environment

- Passionate people are key to ensuring distinction
- Integrated international business platform with an effective global management structure demonstrating our depth of leadership
- Focus on developing and empowering people who are committed to the organisation
- Entrepreneurial environment that attracts talented people and encourages creativity and innovation.

Risk awareness entrenched in our culture

- Intimate involvement of senior management underpins effective risk management which is critical to our success
- Culture of risk awareness is embedded into our reward programmes, values and day-to-day activities
- Shareholder and employee interests are aligned, with executives and employees owning approximately 10% of our issued share capital.

Doing the right thing

- Doing the right thing for clients, employees and communities is integral to our way of doing business
- Focus on projects that are educational, entrepreneurial and sustainable.

Our current strategic focus is to…

- Build low capital intensive revenue
- Tightly manage costs while still investing for the future
- Maintain appropriate levels of capital and liquidity
- Continue the path of implementing our single bank strategy to create additional operational efficiencies and better service our clients
- Maintain momentum in Asset Management
- Continue to internationalise our wealth and investment offering
- Capture trade and investment opportunities between developed and emerging economies.

Our long-term strategy

- Since inception we have expanded through a combination of organic growth and strategic acquisitions
- The internationalisation of Investec is based on the following strategy:
  - following our customer base
  - gaining domestic competence and critical mass in our chosen geographies
  - facilitating cross-border transactions and flow
- Our strategy for the past 20 years has been to build a diversified portfolio of businesses and geographies to support clients (institutional, corporate and private individuals) through varying markets and economic cycles
- In order to create a meaningful and balanced portfolio we need proper foundations in place which gain traction over time.

Our diversified business model

- Broadly defined, we operate in three distinct spaces: Specialist Banking, Wealth & Investment and Asset Management
- We live in a world where the market requires a high degree of transparency and the appropriate management of conflicts of interest
- Within specialist banking, we offer a broad range of services from advisory, structuring, lending, transactional banking, treasury and trading, and investment activities. These services are aimed at government, institutional, corporate and high net worth and high income clients in our selected geographies
- We have a global Wealth & Investment unit which provides investment management services and independent financial planning advice to private clients, charities and trusts
- Operating completely independently from these structures is Investec Asset Management. Its sole focus is the provision of investment management services to its predominantly global institutional client base
- We seek to maintain an appropriate balance between revenue earned from our operational risk activities and revenue earned from financial risk activities
- This ensures that we are not reliant on any one part of our businesses to sustain our activities and that we have a large recurring revenue base that enables us to navigate through varying cycles and to support our long-term growth objectives.

Outlook

- In the face of challenging global market conditions, we continued to pursue our strategy of realigning the business model towards less capital intensive activities and concentrating on reducing legacy issues
- Our competitive position is strong with all platforms in place and our client franchise is robust
- We have the right people and skills to take advantage of opportunities in our identified niches, focusing on winning new clients and servicing existing clients in the best possible way
- The operating environment remains unpredictable and we continue to build on the solid foundation, driving organic growth in our chosen businesses whilst maintaining strong cost and capital discipline.

Financial review

The commentary and analysis of Investec Limited's results for the year ended 31 March 2012 provides an overview of our financial performance relative to the results for the year ended 31 March 2011. The financial information discussed below is based on the period under review, and may not necessarily reflect the financial condition or results of the operations of the bank going forward.

SA's private sector was ranked highly in global comparisons on its financial system (second in terms of soundness of banks from sixth previously), reporting, auditing and reporting standards (first again) and efficacy of corporate boards (second again).

An overview of the operating environment impacting our business

South Africa

South Africa achieved economic growth of close to 3.0% in 2011/12, similar to the year before, as the country's long-term wealth creation trend was re-established. Growth has tended to average 3.3% year-on-year over the ANC's tenure, from 1994 to date, and real incomes per capita have risen to a large extent, from R27 521 per person in 1993 to R38 734 in 2011. It has been a situation where growth begets growth. The compounding effect of 18 years of virtually uninterrupted economic expansion has considerably raised incomes and the size of the economy. Inflation has been consistently combated and South Africans have, in the main, experienced a higher standard of living each year. There are now substantially fewer individuals in the lowest income and living standard measures when compared to 1994. The poor have benefited from a massive rollout of services (although further rollout and substantially improved quality is outstanding). Welfare payments, have been responsible from lifting many out of the lowest living standard and income measures. Stubbornly high levels of unemployment (due chiefly to a skills mismatch) and attendant poverty (with a Gini coefficient above 60 representing a high degree of income inequality) in part belies this positive income story. However, without the significant rise in wealth levels and concomitant expansion in government tax revenues the sustained deepening of the welfare net could not have occurred.

Once again, according to the Global Competitiveness Report, South Africa's private sector was ranked highly on its financial system. Soundness of banks was ranked second from sixth previously, auditing and reporting standards were ranked first again and efficacy of corporate boards was ranked second again. South Africa's fiscal deficit shrank, from 6.5% of GDP in 2009/10 to 4.8% in 2011/12, as the economy experienced its second year of significant expansion, and clearly no monies were needed for financial sector bailouts. The deficit is expected to drop to 3.0% year-on-year in 2014/15 as fiscal health improves further on strengthening growth (we expect growth will approach 5.0% year-on-year by 2014/15). The resultant real rise in incomes and tax revenues will fund both welfare and vitally needed services such as education and health. This is key, as the achievement of a low, single digit unemployment rate will depend on adequate education and poverty reduction. South Africa's low level of sovereign debt (33.3% of GDP) means it can comfortably increase borrowings (expected to peak at 38.5% of GDP in 2014/15) to fund capital investment (both fixed and human) and government's proposed R3 trillion infrastructure rollout. Effective, and consistent, implementation of this infrastructure rollout, with the necessary private sector involvement, has the potential to eradicate structural unemployment and so considerably reduce poverty and inequality within thirty years.

United Kingdom

Over the 2011/12 financial year, the UK economy remained weak. The latest statistics from the Office for National Statistics show the UK economy having reported only one quarter of growth, contracting in the remaining three quarters. As the year closed, UK GDP still stood 4.3% below its pre-recession peak. Seeking to support the UK economy onto some form of recovery footing, and having fended off calls for tighter policy as inflation trended upwards, the UK Monetary Policy Committee kept policy highly expansionary during the period under review. The official bank rate remained at 0.5% throughout the year, marking three years of record low rates in March 2012. Signs of a slowdown in the economy and a tightening in credit conditions resulted in the committee sanctioning further Quantitative Easing (QE) in October 2011. Originally the MPC voted to add a further £75 billion of asset purchases to take the target to

£275 billion, but the Committee raised the QE target by another £50 billion in February 2012 to £325 billion. The UK's long-term sovereign credit rating remained at AAA according to all the main ratings agencies, but both Moody's and Fitch placed Britain on a negative outlook in the 2011/12 period. However, there was not a perceptible market reaction to this news with confidence aided by the Chancellor's continued tough emphasis on 'Plan A' for fiscal consolidation.

Eurozone

As the 2011/12 financial year got underway, the Euro area economy was showing signs of recovery, assisted by some settling in Euro crisis tensions. With inflation having been subject to upward pressures following increases in oil and commodity prices, the ECB Governing Council voted to raise its main refinancing rate by 25bps in both April and July 2011, to 1.5%. When the ECB voted to lift the refi rate in July the economic outlook had already begun to deteriorate rapidly, not helped by agreement on a second Greek bailout unravelling fairly soon after it was announced. Further, talk of private sector bondholder losses, subsequently enforced, also raised the level of unease. From June 2011, concerns over the vulnerability of various peripheral Euro area sovereign markets, especially Italy and Spain, also began to weigh more heavily on markets, triggering a sharp tightening in credit conditions through summer 2011 onwards. To help get the flow of credit moving again, and to assist banks in refinancing an estimated €240 billion of maturing liabilities in the first three months of 2012, the ECB held two three-year Longer-Term Refinancing Operations (LTROs), whose combined take-up exceeded €1 trillion. Indeed at the end of March 2012 the Eurosystem had over €750 billion of excess liquidity. The second Greek bailout was eventually renegotiated and rubber stamped in March 2012, easing fears of an uncontrolled default by the Hellenic Republic. Sentiment was also stabilised towards the end of the financial year by Euro area authorities giving the go ahead to run the two rescue facilities, the European Financial Stability Facility and its replacement, the European Stability Mechanism, in tandem, thereby raising Europe's bailout capacity by €200 billion to €700 billion. As the financial year closed, the Euro area economy appeared to be showing some signs of stabilisation, albeit at very low levels with the Euro area economy likely to have contracted again in the first half of 2012. With Euro crisis risks continuing to loom large and with Spain and Italy still in the frame for further bouts of contagion, the Eurozone entered the new 2012/13 financial year on a weak and vulnerable footing.

Australia

As the 2011/12 financial year got underway, the Australian economy was recovering quickly from the floods that weighed heavily on the Q1 2011 growth outturn. In the third and fourth quarters the economy continued to expand, but at a more moderate pace than in Q2. Consumption and investment remained robust through the year, with the latter continuing to gain support from buoyant Asian resource demand. As fears over the Euro area debt crisis, and some signs of slowing growth in China risked weighing on growth in the period ahead, the Reserve Bank opted to add the safety net of a cut in the cash rate, reducing it by 25bps in November and December 2011 to 4.25%. A few nerves over possible upside risks to inflation, as oil prices began to track upwards again at the turn of 2012, put on ice any further moves to ease policy at the start of 2012. As the financial year closed the cash rate remained at 4.25%. The Australian Dollar exhibited periods of extreme strength at points during the period, exceeding the USD1.10 level in July 2011. It was then subject to selling pressure in October and November as risk-appetite took a hit; this took it below parity, but it subsequently closed the 2011/12 financial year at USD1.0350.

United States

The US economy continued to grow moderately through the 2011/12 financial year, with disruption from political fights over the US debt ceiling, and the impact of spring 2011's sharp increase in oil prices, weighing on growth, but not putting the brakes on recovery altogether. In the period under review US GDP surpassed its pre-recession peak, with the continued growth helping to bring the unemployment rate down from 9.0% in April 2011 to 8.2% in March 2012. Over the financial year as a whole, the US economy grew by 1.7%. However, housing market activity remained heavily depressed, with only a few signs of a modest increase in activity appearing at the turn of 2012. US monetary policy remained highly accommodating throughout the financial year, with the Federal Reserve having stayed nervous about the downside risks posed, particularly by the continuation of the Euro area sovereign debt crisis. Not content with the pace of improvement in the labour market and fearful of the Euro crisis, the Fed sought to ease policy by introducing written guidance into its policy statements in August 2011. The statements sought to convince markets that Fed policy would remain loose for a sustained period, with the wording of the statement in August implying the Federal funds target rate would remain close to current lows, of 0.0% – 0.25% until mid-2013. In January 2012, the Federal Reserve extended that language to imply that rates would remain low for even longer, until at least through late-2014.

Fears over the sluggishness of the US housing sector, and the extent to which this could weigh on the jobs recovery, may have been the decisive factor in encouraging the Fed to embark on 'Operation Twist' in September 2011. Under the programme, the Fed is selling USD400 billion of shorter-term Treasury securities and using the proceeds to buy longer-term Treasury securities, extending the average maturity of the Fed's security portfolio and aiming to put downward pressure on longer-term rates. As the final quarter of the 2011/12 financial year progressed, the US appeared to shift onto a firmer recovery footing, with survey data continuing to have firmed and with the jobs recovery somewhat brighter too. As the financial year drew to a close, the US outlook remained bright, but with the threat of an oil price increase weighing on consumer spending and growth, a continuing threat.

The table below provides an overview of some key statistics that should be considered when reviewing our operational performance.

	Period ended 31 March 2012	Period ended 31 March 2011	% change	Average over the period: 1 April 2011 to 31 March 2012
Market indicators				
FTSE All share	3 003	3 068	(2.1%)	2 930
JSE All share	33 554	32 204	4.2%	32 019
Australia All ords	4 420	4 929	(10.3%)	4 417
S&P 500	1 408	1 326	6.2%	1 279
Nikkei	10 084	9 755	3.4%	9 183
Dow Jones	13 212	12 320	7.2%	12 160
Exchange rates				
Rand:Pounds Sterling	12.27	10.88	12.8%	11.85
Rand:US Dollar	7.67	6.77	13.3%	7.45
US Dollar:Euro	1.33	1.42	(6.3%)	1.38
Euro:Pounds Sterling	1.20	1.13	6.2%	1.16
Australian Dollar:Pounds Sterling	1.54	1.55	(0.6%)	1.52
US Dollar:Pounds Sterling	1.60	1.60		1.60
Rates				
UK overnight	0.48%	0.45%		0.52%
UK 10 year	2.20%	3.69%		2.63%
UK clearing banks base rate	0.50%	0.50%		0.50%
LIBOR – three month	1.03%	0.82%		0.94%
SA R157 (2015)	6.69%	7.82%		7.00%
Rand overnight	5.26%	5.23%		5.24%
SA prime overdraft rate	9.00%	9.00%		9.00%
JIBAR – three month	5.60%	5.58%		5.58%
Reserve Bank of Australia cash target rate	4.25%	4.75%		4.55%
US 10 year	2.21%	3.47%		2.41%
Commodities				
Gold	USD1 667/oz	USD1 432/oz	16.4%	USD1 647/oz
Gas Oil	USD1 014/mt	USD993/mt	2.1%	USD960/mt
Platinum	USD1 639/oz	USD1 768/oz	(7.3%)	USD1 676/oz
Macro-economic				
UK GDP (% change over the period)	0.3%	1.8%		
UK per capita GDP (£)	24 031	23 362	2.9%	
South Africa GDP (% real growth over the calendar year)	2.2%	3.8%		
South Africa per capita GDP (real value) (Rand)	38 232	36 591	4.5%	
Australia GDP (% change over the period)	2.6%	2.4%		
Australia per capita GDP (A$)	63 744	60 178	5.9%	

Source: Datastream, Bloomberg's, Office for National Statistics, SARB Quarterly Bulletin, Australian Bureau of Statistics.

An overview of our key income drivers

We provide a wide range of financial products and services to a niche client base in South Africa and Mauritius. We are organised as a network comprising three principal business divisions: Asset Management, Wealth & Investment and Specialist Banking.

There are therefore a number of key income drivers for our business which are discussed below.

Business activity	Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
Asset Management			
	• Fixed fees as a percentage of assets under management • Variable performance fees	• Movements in the value of the assets underlying client portfolios • Performance of portfolios against set benchmarks • Net sales	• Fees and commissions
Wealth & Investment			
	• Investment management fees levied as a percentage of assets under management • Commissions earned for executing transactions for clients	• Movement in the value of assets underlying client portfolios • The level of investment activity undertaken on behalf of clients, which, in turn, is affected by, among other things, the performance of the global stock markets (which drives investment opportunities), the equity investment risk appetite of our clients, tax considerations and market liquidity	• Fees and commissions
Specialist Banking			
	• Lending activities	• Rate environment • Size of portfolios • Clients' capital and infrastructural investments • Client activity	• Net interest income • Fees and commissions • Investment income
	• Cash and near cash balances	• Rate environment • Capital employed in the business and capital adequacy targets • Asset and liability management policies and risk appetite • Regulatory requirements	• Net interest income • Trading income arising from balance sheet management activities
	• Deposit and product structuring and distribution	• The level of clients' investment activity, which, in turn, is affected by among other things, the performance of the global markets and the investment risk appetite of our clients • Distribution channels • Ability to create innovative products • Regulatory requirements	• Net interest income • Fees and commissions

Business activity	Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
Specialist Banking (continued)			
	• Investments made (including listed and unlisted equities; debt securities; investment properties) • Gains or losses on investments • Dividends received	• Macro- and microeconomic market conditions • Availability of profitable exit routes • Whether appropriate market conditions exist to maximise gains on sale • Attractive investment opportunities • Credit spreads	• Net interest income • Investment income
	• Advisory services	• The demand for our specialised advisory services, which, in turn, is affected by applicable tax, regulatory and other macro- and micro-economic fundamentals	• Fees and commissions
	• Derivative sales, trading and hedging	• Client activity • Market conditions • Asset and liability creation • Product innovation • Market risk factors, primarily volatility and liquidity	• Fees and commissions • Trading income arising from customer flow
	• Transactional banking services	• Levels of activity • Ability to create innovative products • Appropriate systems infrastructure	• Net interest income • Fees and commissions

Risks relating to our operations

An overview of key risks

In our ordinary course of business we face a number of risks that could affect our business operations.

These risks are summarised briefly in the table below with further detail provided in the risk management section of this report. For additional information pertaining to the management and monitoring of these risks, see the references provided.

Key risks	Reference
Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients	See pages 34 to 57
Liquidity risk may impair our ability to fund our operations	See pages 69 to 75
Our net interest earnings and net asset value may be adversely affected by interest rate risk	See pages 66 to 69
Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways	See pages 58 to 65
We may be unable to recruit, retain and motivate key personnel	See the Investec group's 2012 integrated annual report
Employee misconduct could cause harm that is difficult to detect	See pages 75 to 78
Operational risk may disrupt our business or result in regulatory action	See pages 75 to 78
We may be vulnerable to the failure of our systems and breaches of our security systems	See pages 75 to 78
We may have insufficient capital in the future and may be unable to secure additional financing when it is required	See pages 79 to 88
The financial services industry in which we operate is intensely competitive	See pages 17 to 19
Legal and regulatory risks are substantial in our businesses	See page 78 and 79
Reputational, strategic and business risk	See page 78

Additional risks and uncertainties not presently known to us or that we currently deem immaterial may in the future also negatively impact our business operations.

Overview

Investec Limited posted an increase in headline earnings attributable to ordinary shareholders of 12.6% to R2 392 million (2011: R2 124 million). The balance sheet remains strong with a capital adequacy ratio of 16.1% (2011: 15.9%).

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 2011.

Income statement analysis

The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

Total operating income

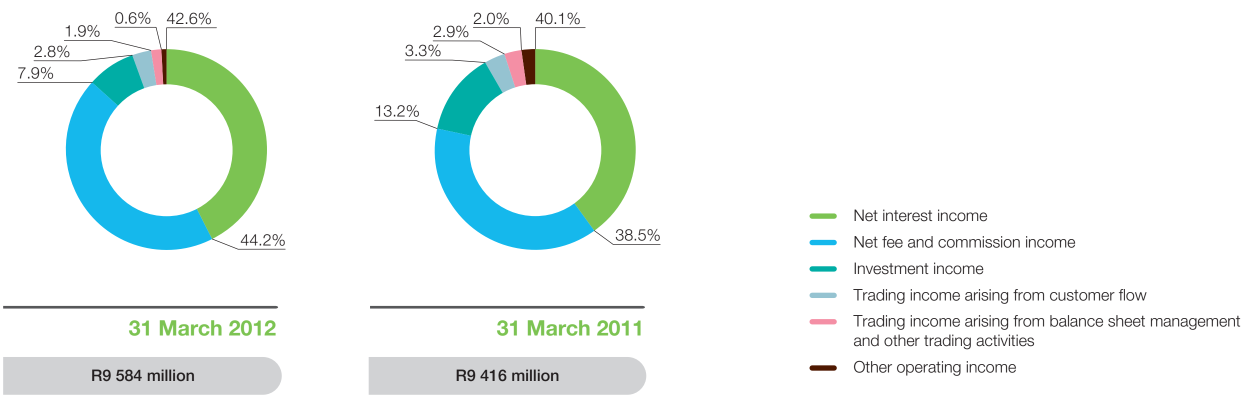
Total operating income before impairment losses on loans and advances of R9 584 million is 1.8% higher than the prior year. The various components of total operating income are analysed below.

R'million	31 March 2012	% of total income	31 March 2011	% of total income	% change
Net interest income	4 085	42.6%	3 776	40.1%	8.2%
Net fee and commission income	4 234	44.2%	3 627	38.5%	16.7%
Investment income	758	7.9%	1 239	13.2%	(38.8%)
Trading income arising from					
– customer flow	270	2.8%	308	3.3%	(12.3%)
– balance sheet management and other trading activities	183	1.9%	278	2.9%	(34.2%)
Other operating income	54	0.6%	188	2.0%	(71.3%)
Total operating income before impairment losses on loans and advances	9 584	100.0%	9 416	100.0%	1.8%

The following table sets out information on total operating income by division for the year under review.

R'million	31 March 2012	% of total income	31 March 2011	% of total income	% change
Asset Management	2 047	21.3%	1 846	19.6%	10.9%
Wealth & Investment	639	6.7%	603	6.4%	6.0%
Specialist Banking	6 898	72.0%	6 967	74.0%	(1.0%)
Total operating income before impairment losses on loans and advances	9 584	100.0%	9 416	100.0%	1.8%

% of total operating income before impairment losses on loans and advances



Net interest income

Net interest income increased by 8.2% to R4 085 million (2011: R3 776 million) largely as a result of improved margins and a sound performance from the bank's fixed income portfolio, partially offset by higher costs on subordinated liabilities.

A further analysis of interest received and interest paid is provided in the tables below.

For the year ended R'million	Notes	31 March 2012 Balance sheet value	31 March 2012 Interest received	31 March 2011 Balance sheet value	31 March 2011 Interest received
Cash, near cash and bank debt and sovereign debt securities	1	100 663	4 539	77 730	3 039
Core loans and advances	2	128 747	10 927	120 784	11 373
Private Client		96 183	7 961	88 374	7 727
Corporate, institutional and other clients		32 564	2 966	32 410	3 646
Other debt securities and other loans and advances		6 494	326	5 372	379
Other interest earning assets	3	2 015	150	1 347	466
Total interest earning assets		237 919	15 942	205 233	15 257

For the year ended R'million	Notes	31 March 2012 Balance sheet value	31 March 2012 Interest paid	31 March 2011 Balance sheet value	31 March 2011 Interest paid
Deposits by banks and other debt-related securities	4	36 496	457	26 831	325
Customer accounts		176 094	9 773	154 504	9 736
Other interest bearing liabilities	5	6 748	766	7 553	739
Subordinated liabilities		9 628	861	6 866	681
Total interest bearing liabilities		228 966	11 857	195 754	11 481
Net interest income			4 085		3 776

Notes
1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; non-sovereign and non-bank cash placements; reverse repurchase agreements; sovereign debt securities; bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers; own originated loans and advances to customers securitised.*
3. *Includes intergroup loans.*
4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; reverse repurchase agreements.*
5. *Comprises (as per the balance sheet) liabilities arising on securitisation of own originated assets; liabilities arising on securitisation of other assets.*

Net fee and commission income

Net fee and commission income increased by 16.7% to R4 234 million (2011: R3 627 million), supported by higher average funds under management and a solid performance from the corporate and advisory businesses.

For a further analysis on net fee and commission income refer to page 136.

Investment income

Investment income decreased by 38.8% to R758 million (2011: R1 239 million) largely due to a weaker performance from the bank's listed principal investments portfolio.

For a further analysis on investment income refer to page 137.

Trading income

Trading income arising from customer flow decreased by 12.3% to R270 million (2011: R308 million) whilst trading income arising from balance sheet management and other trading activities decreased by 34.2% to R183 million (2011: R278 million) reflecting lower activity on the trading and balance sheet management desks.

Impairment losses on loans and advances

Impairment losses on loans and advances decreased by 4.2% from R860 million to R824 million. The credit loss charge as a percentage of average gross loans and advances has improved from 0.71% at 31 March 2011 to 0.65%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances has decreased from 3.97% to 2.73%. The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.68 times (2011: 1.49 times). Further information on asset quality is provided on pages 48 to 57.

Operating costs

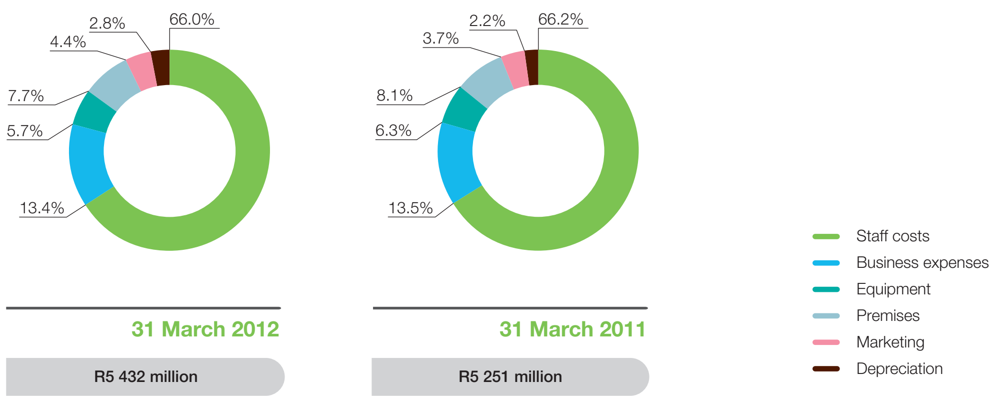
Total operating expenses increased by 3.4% to R5 432 million (2011: R5 251 million), largely as a result of inflationary adjustments with the ratio of total operating costs to total operating income amounting to 56.7% (2011: 55.8%).

R'million	31 March 2012	% of total expenses	31 March 2011	% of total expenses	% change
Staff costs (including directors' remuneration)	3 583	66.0%	3 477	66.2%	3.0%
Business expenses	729	13.4%	708	13.5%	3.0%
Equipment (excluding depreciation)	309	5.7%	331	6.3%	(6.6%)
Premises (excluding depreciation)	418	7.7%	423	8.1%	(1.2%)
Marketing expenses	238	4.4%	197	3.7%	20.8%
Depreciation	155	2.8%	115	2.2%	34.8%
Total operating costs	5 432	100.0%	5 251	100.0%	3.4%

The following table sets out certain information on total expenses by division for the year under review.

R'million	31 March 2012	% of total expenses	31 March 2011	% of total expenses	% change
Asset Management	1 164	21.4%	1 014	19.3%	14.8%
Wealth & Investment	457	8.4%	429	8.2%	6.5%
Specialist Banking	3 811	70.2%	3 808	72.5%	0.1%
Total operating costs	5 432	100.0%	5 251	100.0%	3.4%

% of total expenses



Balance sheet analysis

Since 31 March 2011:

- Total shareholders' equity (including non-controlling interests) increased by 7.0% to R22.2 billion largely as a result of retained earnings and the issue of shares
- Total assets increased by 13.2% to R348.1 billion largely as a result of an increase in cash and near cash balances held.

3

Business overview

Operating profit before goodwill, non-operating items and taxation (operating profit)

R'million	Year to 31 March 2012	Year to 31 March 2011	% of total
Asset Management	883	832	6.1%
Wealth & Investment	182	174	4.6%
Specialist Banking	2 263	2 299	(1.6%)
Property activities	211	448	(52.9%)
Private Banking activities	363	31	>100.0%
Corporate Advisory and Investment activities	430	736	(41.6%)
Corporate and Institutional Banking activities	1 224	1 011	21.1%
Group Services and Other activities	35	73	(52.1%)
Total	3 328	3 305	0.7%

Asset Management

Overview of performance

The Asset Management division posted a 6.1% increase in operating profit to R883 million (2011: R832 million) mainly as a result of higher average assets under management. Total assets under management amount to R311.7 billion (2011: R305.0 billion).

Developments

- Equity market conditions have been volatile over the financial year which has had an effect on the bottom line
- Revenues were subdued in the second half of the financial year as a consequence of fears over the Eurozone crisis
- During the 2011 calendar year we won several awards:
  - Winner of EMEA Finance's Best Asset Manager in Africa award
  - Winner of Raging Bull's (South Africa) – Offshore Management Company of the Year (second year running)
  - Winner of Imbasa Yegolide's Global Manager of the Year award (second year running)
- Over the year, we continued to focus on institutional clients from across the world
- We have continued to invest in our investment capabilities resulting in competitive investment performance.

Looking forward

- The momentum of our business is positive and we have benefited from sustained performance over many years
- Weak markets will continue to affect our flows, revenues and profits, but our broad range of investment capabilities is well positioned to serve current and future investor demand
- With this as a foundation and with our global client reach and institutional market focus, we have managed to steer a stable course in this uncertain climate

- However, given the world is subject to dramatic changes in regulatory agendas, demographic shifts and relative risk perceptions, we continue to be vigilant and the key risks to our business remain market levels, key staff retention, reputational risk and investment performance
- We believe that our long-term strategy will continue to create substantial value for clients and shareholders alike.

Wealth & Investment

Overview of performance

The wealth and investment business posted an operating profit of R182 million, an increase of 4.6% over the prior year. Whilst client execution activity levels have remained subdued, the business has benefited from higher average funds under management. Total funds under management amount to R169.3 billion (2011: R158.8 billion).

Developments

- The strong second half performance helped drive annual revenue growth by a respectable 6.2%. Growth in discretionary assets of 18.7% was satisfactory and was accompanied by an encouraging yield pick-up which points to an improvement in overall funds under management quality compared to last year.

Looking forward

- Market volatility, as measured by the Volatility Index (VIX), is at one of its lowest levels in the five years since the financial crisis first began. This generally bodes well for our discretionary investment management business as investors are inclined to allocate a larger portion of their investable assets into riskier asset classes, including equities
- The side effects of long-term low market volatility include lower trading-related turnover which can have a negative impact on our advisory and execution stock broking businesses revenue. This, together with increased margin pressures and rising regulatory-related costs throughout the private client stock broking industry, may result in a reduced contribution to overall income from this segment of the business for the new financial year
- We continue to focus on acquiring new discretionary and other annuity fee paying type assets which best fit into our core investment infrastructure – an area in which we have invested quite considerably over the past year. In addition to this, we expect to consolidate our international investment service offering via a single, seamless platform.

Specialist Banking

The Specialist Bank posted a 1.6% decrease in operating profit to R2 263 million (2011: R2 299 million).

The division has benefited from improved margins in the lending and fixed income businesses and a strong increase in fees and commissions supported by increased activity in the Corporate and Advisory divisions. Whilst the unlisted private equity portfolio continues to perform well, investment income has been adversely affected by a poor performance in the listed principal investment portfolio. Furthermore, income earned on the sale of investment properties in the prior year was not repeated in the current year.

Property activities

Developments

- We are active in a number of office, industrial and retail developments and have successfully completed a number of major developments
- The Investec Property Fund was listed on the JSE in April 2011 with a market capitalisation of R1.7 billion
- The listing was very well received in the market and the asset value at 31 March 2012 was R2.07 billion. The unit was listed at R9.50 and at 31 March 2012 was R11.70, having paid an interim distribution of 42 cents; a return in excess of 27% in one year
- The fund creates opportunities for us to develop as it has a strategy to grow aggressively over the next five years.

Looking forward

- Notwithstanding the uncertain outlook in the short term, we believe that the prospects for Investec Property remain positive. We have good pipeline for development and there are opportunities to convert and refurbish existing holdings.

Private Banking activities

Developments

- Private banking activities have been separated into two focus areas, namely high income and high net worth, in order to enhance the offering and the commensurate profitability
- This renewed focus on core banking in the high income space is aimed at improving the client experience, increasing our client acquisition and utilisation of our core products
- The raising of retail, private client and SME deposits is an important focus for the business. New products are being developed in an effort to drive growth and duration of our deposit base
- Lending activity levels have improved significantly compared to the previous year. Due to growth in repayments, overall asset growth was moderate
- The economic environment remains subdued; however, Private Bank experienced a declining trend in new defaults and impairments during the past 18 months
- Costs have been well contained during this period through an ongoing process of realignment of structures and processes.

Looking forward

Economic growth is expected to remain subdued, with a tight mortgage market continuing to impact residential property prices.

The key objectives for the forthcoming period are:

- Continue to build profitability as a result of improved activity levels in both lending and funding activities and a further anticipated reduction in impairments
- Grow our client base within our key target markets
- Reduce the risk profile through increased focus on lower risk lending activities
- Increase in annuity income through a focus on banking activities and transactional activities
- Diversify the deposit base in terms of client and product
- Balance cost containment with investment for the future
- Continue to align processes and structures to support client focus and consistency
- Ongoing focus on distressed and default deals to ensure actual losses are minimised.

Corporate Advisory and Investment activities

Developments

Advisory

- We have maintained our strong positioning
- Our focus was on local and cross-border M&A, capital raisings and restructuring transactions
- We retained our major clients and gained several new mandates during the period
- Numerous new mandates were entered into, however, it remains difficult to close deals given current market and regulatory conditions
- The total value of advisory transactions decreased to R60.4 billion (2011: R76.9 billion) during the period and the number of transactions increased to 61 (2011: 60)
- Sponsor broker deals completed during the period increased to 97 (2011: 74) with the value decreasing to R61.2 billion (2011: R91.5 billion)
- The Corporate Finance division was ranked first in volume of listed M&A transactions and first in general corporate finance in *Dealmakers* Magazine Survey for Corporate Finance (2011 calendar year). This is the ninth year that we have been ranked first in volume of listed M&A transactions in the last 11 years
- The Sponsor division was ranked first in volume of M&A transactions and first in general corporate finance in the *Dealmakers* Magazine Survey for Sponsors (2011 calendar year). The Sponsor division has been ranked in the top two in M&A transactions and general corporate finance by volume for the past nine years.

Institutional, research, sales and trading

- The institutional securities business underwent a strategic review in the middle of last year and a number of action steps were subsequently implemented

- Core to this action was a cost reduction programme which resulted in the closure of all non-core activities and a narrowing of focus in our research coverage
- Although, some of the cost benefits of this action flowed through in the second half of the financial year the full benefit will only be captured in the 2013 financial year
- The business is in a financially healthier position as a result.

Principal investments

- The direct investments portfolio was R2 160 million at 31 March 2012 (March 2011: R2 511 million). The decrease in value was primarily due to realisations
- The private equity portfolio was R4 223 million at 31 March 2012 (March 2011: R3 838 million). We continued to expand the capacity of our private equity investments through the acquisition of four new private equity assets as well as large capital projects and expenditure within the portfolio. The benefits of these activities will only be felt in future financial years. The increase in value in the current year was driven primarily by new acquisitions.

Looking forward

Advisory

- The deal pipeline in the business remains reasonable.

Institutional, research, sales and trading

- Post the strategic realignment of the South African platform last year, the Institutional business now stands on a solid foundation to move forward and grow top line revenue in what is a highly competitive operating environment.

Principal investments

- We remain active in seeking direct investment opportunities, while continuing to unlock further value from the portfolio and building BEE platforms in South Africa
- All of the companies in our private equity portfolio in South Africa are trading profitably in difficult market conditions and the overall outlook remains positive for the future.

Corporate and Institutional Banking activities

Developments

Treasury and trading services

- Significant surplus liquidity levels were maintained during the period and we continue to be a provider of liquidity to the South African interbank market. Our surplus liquidity has had a negative effect on our margin for the period
- We successfully launched the credit derivatives trading business
- We successfully rolled out our E Commerce offering for online corporate trading
- We successfully launched CFD's
- Our commodities investment business was implemented successfully to allow for investment products and corporate hedging
- We successfully established our clearing business.

Specialised finance

- The corporate market continues to remain weak with low levels of activity leading to depressed lending activity and consequently, moderate hedging activity. We have however, seen an increase in pipeline in our lending businesses
- We established a supplier asset-based finance business during the year
- An African coverage unit has been established to increase our footprint in Africa
- Activity in the renewable energy sector offers encouraging opportunities for the future.

Looking forward

- We continue to build and grow sustainable businesses on the back of client-driven transactional flow in derivatives and financial markets
- We continue to be a net provider of liquidity to the interbank market
- We look to leverage and grow our African exposure
- We continue to exploit opportunities in the renewable energy sector.

Risk, governance and additional information

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1: Presentation of Financial Statements (IAS 1) are included within this section of the annual report (pages 31 to 89) with further disclosures provided within the financial statements section (pages 116 to 185). All sections, paragraphs, tables and graphs on which an audit opinion is expressed are marked as audited.

Philosophy and approach

Our comprehensive risk management process involves identifying, quantifying, managing and mitigating the risks associated with each of our businesses.

Risk awareness, control and compliance are embedded in all our day-to-day activities.

Group Risk Management monitors, manages and reports on our risk to ensure it is within the stated appetite as mandated by the board of directors through the board risk and capital committee. Business units are ultimately responsible for risks that arise.

We monitor and control risk exposure through credit, market, liquidity, operational and legal risk reporting teams. This approach is core to assuming a tolerable risk and reward profile, helping us to pursue controlled growth across our business.

Overall group summary of the year in review from a risk perspective

This section should be read in conjunction with, and against the background provided in, the overview of the operating environment section on pages 17 to 19.

Investec has continued to maintain a sound balance sheet with low leverage, and a diversified business model. This has been supported by the following key operating fundamentals:

- Intimate involvement of executive management ensuring stringent management of risk, liquidity and capital
- Strong risk and capital management culture embedded into our day-to-day activities and values. We seek to achieve an appropriate balance between risk and reward in our business, taking cognisance of all stakeholders' interests
- Reward programmes that align directors' and employees' interests with those of stakeholders, ensuring that these programmes promote effective risk management. Annual bonuses are closely linked to business performance, determined in the main by realised economic value-added profit performance against pre-determined targets above a risk and capital weighted return. This model has been consistently applied within the group for in excess of ten years
- Credit and counterparty exposures to a select target market; our risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. Exposure is taken against defined target clients displaying sound financial strength and integrity, a core competency and an established track record. Impairments have decreased from R860 million to R824 million. The credit loss charge as a percentage of average gross loans and advances has improved from 0.71% at March 2011 to 0.65%

Group Risk Management objectives are to:

- Be the custodian of our risk management culture
- Ensure the business operates within the board stated appetite
- Support the long-term sustainability of the group by providing an established, independent framework for identifying, evaluating, monitoring and mitigating risk
- Set, approve and monitor adherence to risk parameters and limits across the group and ensure they are implemented and adhered to consistently
- Aggregate and monitor our exposure across risk classes
- Co-ordinate risk management activities across the organisation, covering all legal entities and jurisdictions
- Give the boards reasonable assurance that the risks we are exposed to are identified and, to the best extent possible, managed and controlled
- Run appropriate risk committees, as mandated by the board.

Investec has continued to maintain a sound balance sheet with low leverage.

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- Limited exposure to rated and unrated structured credit investments; representing approximately 0.8% of total assets
- A low leverage (gearing) ratio of 12.2 times
- A low level of net assets and liabilities exposed to the volatility of IFRS fair value accounting; with level 3 assets amounting to 0.01% of total assets
- Low equity (investment) risk exposure; within total investments comprising 4.9% of total assets
- Modest proprietary market risk within our trading portfolio. Value at risk and stress testing scenarios remain at prudent levels
- Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to less than 0.2% of total operating income
- A high level of readily available, high quality liquid assets; cash and near cash of R69.1 billion, representing 32.5% of our liability base. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth
- Continued increase in retail customer deposits and a growing retail franchise
- Healthy capital ratios; we have always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy. We have continued to strengthen our capital base during the year
- A high level of recurring income which continues to support sustainability of operating profit.

Detailed information on key developments during the financial year in review is provided in the sections that follow (refer to pages 40 and 41 with a high level geographic summary of the most salient aspects provided below.

Credit risk

Credit quality on core loans and advances has improved during the year in review. Core loans and advances increased by 6.6% to R128.7 billion. Default loans (net of impairments) as a percentage of core loans and advances decreased from 3.97% to 2.73% as same transactions have settled and others have been written off. The credit loss ratio improved from 0.71% to 0.65%. The majority of current year and historical defaults were recorded in the private client loan portfolio and largely comprise a relatively small number of clients where finance was provided at reasonably conservative loan to values but with no obvious serviceability except realisation of collateral. Defaults have occurred when clients have been unable to realise sales to service and repay.

Traded market risk

Market conditions have not been conducive to client flow or proprietary trading. FX markets have been volatile with little or no clear trend as European conditions were the main driver of sentiment. Local equity markets took direction from the FX market which also influenced South African bond yields. Traders as the first line of defence have ensured that positions remain manageable in these conditions. Value at risk has remained on the low side but higher than last year.

Balance sheet risk

The bank continued to benefit from a growing retail franchise with total customer deposits increasing by 13.8% from 1 April 2011 to R176.1 billion at 31 March 2012. Cash and near cash balances increased by 31.3% from 1 April 2011 to R69.1 billion at 31 March 2012, with excess reserves placed in highly liquid treasury bills and government bonds.

Salient features

A summary of key risk indicators is provided in the table below.

	31 March 2012	31 March 2011
Net core loans and advances (R'million)	128 747	120 784
Gross defaults as a % of gross core loans and advances	3.71%	5.07%
Defaults (net of impairments) as a % of net core loans and advances	2.73%	3.97%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	0.65%	0.71%
Structured credit investments as a % of total assets	0.80%	1.66%
Banking book investment and equity risk exposures as a % of total assets	4.89%	5.90%
Traded market risk: one-day value at risk (R'million)	4.2	3.8
Cash and near cash (R'million)	69 077	52 591
Customer accounts (deposits) (R'million)	176 094	154 504
Core loans to equity ratio	5.8x	5.8x
Total gearing/leverage ratio**	12.2x	11.5x
Core loans (excluding own originated assets which have been securitised) to customer deposits	69.6%	74.1%
Capital adequacy ratio	16.1%	15.9%
Tier 1 ratio	11.6%	11.9%

* *Income statement impairment charge on loans as a percentage of average advances.*

** *Total assets excluding assurance assets to total equity.*

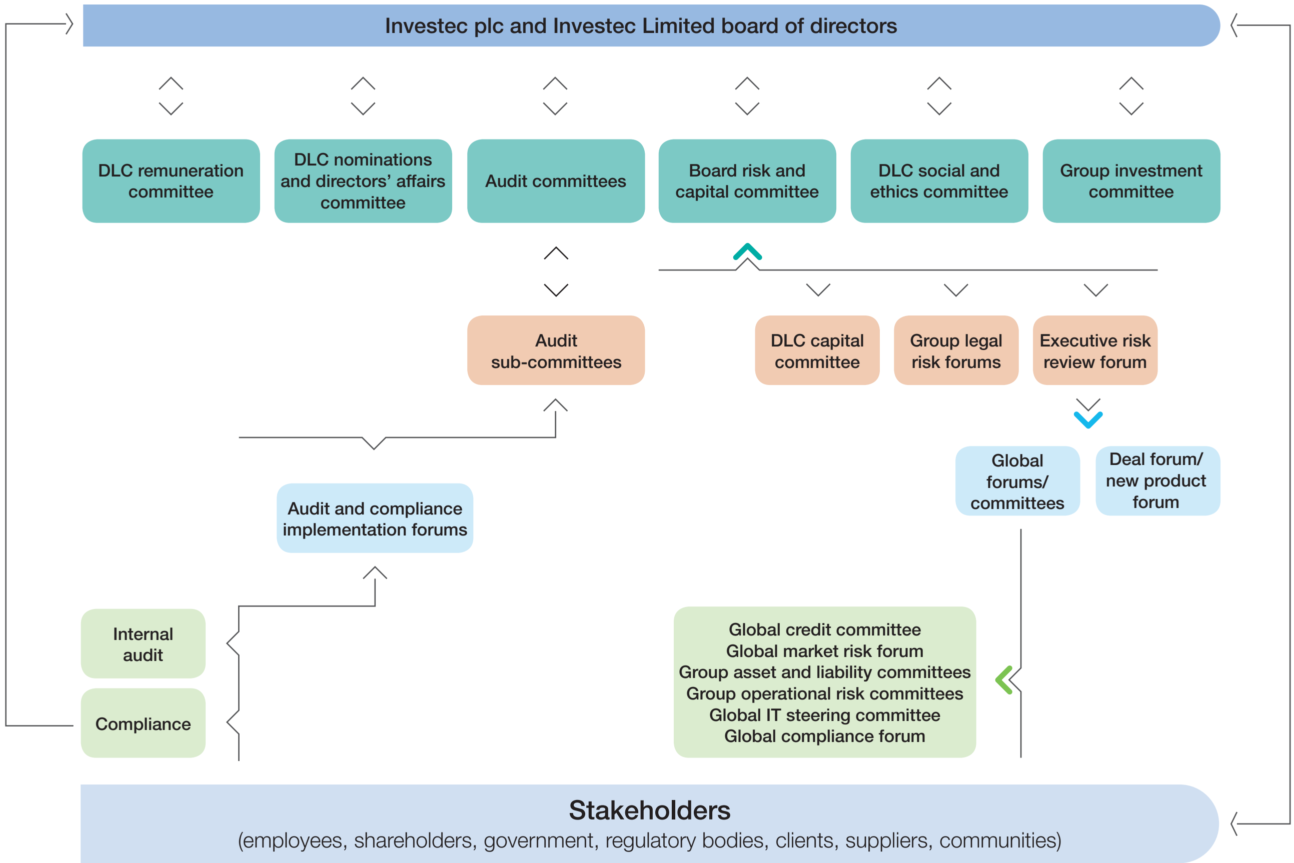
An overview of key risks

In our ordinary course of business we face a number of risks that could affect our business operations. These risks have been highlighted on page 22. The sections that follow provide information on a number of these risk areas.

Additional risks and uncertainties not presently identified by us or that we currently deem immaterial may in the future also negatively impact our business operations.

Risk management framework, committees and forums

A number of committees and forums identify and manage risk at both a business unit level in various locations and at a group level. These committees and forums operate together with group Risk Management and are mandated by the board. A diagram of our governance and risk framework is provided below:



In the sections that follow the following abbreviations are used on numerous occasions:

BRCC	Board risk and capital committee
ERRF	Executive risk review forum
SARB	South African Reserve Bank

Credit and counterparty risk management

Credit and counterparty risk description Audited

Credit and counterparty risk is defined as the current and prospective risk to earnings or capital arising from an obligor's (typically a client's or counterparty's) failure to meet the terms of any obligation to us or otherwise to perform as agreed. Credit and counterparty risk arises when funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on- or off-balance sheet.

Credit and counterparty risk arises primarily from three types of transactions:

- Lending transactions, giving rise to a direct exposure. The risk is created that an obligor will be unable or unwilling to repay capital and/or interest on advances and loans granted to it. This category includes bank placements, where we have placed funds with other financial institutions
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument will not be received
- Trading transactions, giving rise to settlement and replacement risk (collectively counterparty risk)
  - Settlement risk is the risk that the settlement of a transaction does not take place as expected, with one party effecting required settlements as they fall due but not receiving settlements to which they are entitled. In terms of our definition, settlement debtors

receivable in the short term (i.e. less than three days) are excluded from credit and counterparty risk due to market guaranteed settlement mechanisms

– Replacement risk is the risk following default by the original counterparty resulting in the contract holder having to enter into a replacement contract with a second counterparty in order to finalise the transaction.

Credit and counterparty risk can manifest as country risk as a result of the geopolitical and transfer risk associated with exposures arising from transactions with borrowers who are resident in a foreign country, or dependent on that country's economy.

Credit and counterparty risk may also arise in other ways and it is the role of the various independent credit committees, assisted by Credit Risk Management, to identify situations falling outside these definitions where credit risk may also be present.

Credit and counterparty risk governance structure Audited

To manage, measure and mitigate credit and counterparty risk, independent credit committees exist in each geography where we assume credit risk. These committees operate under board approved delegated limits, policies and procedures. There is a high level of executive involvement and non-executive review and oversight in the credit decision making forums. It is our policy that all centralised credit committees have a majority of voting members who are independent of the originating business unit. All decisions to enter into a transaction are based on unanimous consent.

In addition to the group credit committee, the following processes assist in managing, measuring and monitoring credit and counterparty risk:

- Day-to-day arrears management and regular arrears reporting ensures that individual positions and any potential trends are dealt with in a timely manner
- Watchlist committee, which reviews the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision
- Corporate watch forum, which reviews and manages exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements
- Arrears, default and recoveries forum which specifically reviews and manages distressed loans and potentially distressed loans for private clients.

Whilst we do not have a separate country risk committee, the local and global credit committees will consider, analyse, and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions. The local group credit committee has the authority to approve country limits within mandate. The global credit committee is responsible for approving country limits not within the mandate of local group credit committees.

Credit and counterparty risk appetite

Credit and counterparty risk is always assessed with reference to the aggregate exposure to a single counterparty or group of related parties to manage concentration risk.

Our assessment of our clients includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on income and cash flow streams generated by the clients, third party income or cash flow streams derived from lease or rental agreements in support of property related transactions. In this manner, we seek comfort in mitigating our risk by thoroughly assessing the ability of our borrowers to meet their payment obligations. Furthermore we have very little appetite for unsecured debt and ensure that good quality collateral is provided in support of obligations (refer to page 57 for further information).

Target clients include high net worth individuals, certain professionally qualified individuals, high income earning individuals, corporates, state owned enterprises and banks. Corporates must have scale, relevance, experienced management, able board members and strong earnings/cash flow. Interbank lending is largely reserved for those banks and institutions in the group's core geographies of activity, which are systemic and highly rated. Direct exposures to cyclical industries and start-up ventures tend to be avoided.

We typically originate loans with the intent of holding these assets to maturity, and thereby developing a 'hands on' and longstanding relationship with our clients. In certain instances we have elected to sell certain assets down and/or securitised them (refer to pages 60 and 61 for further information).

Sustainability considerations

Credit risk committees engage in quantitative and qualitative risk assessments as part of the responsible lending approach to doing business. Sustainability aspects form the cornerstone of the evaluation conducted by the credit committees. In addition to the traditional financial review, evaluations encompass a review of a client's business model, governance, environmental practices and the social impact of the business.

Pricing is motivated by the relevant business unit on a transaction by transaction basis, with consideration given to the manner of origination of the asset and the forward strategy for the asset, capital usage and liquidity. Pricing recommendations are discussed and agreed at the appropriate credit committee to ensure that the reward is appropriate to the risk and that pricing is not compromised in the pursuit of volume or relationship. As a consequence of market behaviour, the pricing for similar risk may differ from time to time.

Group Risk Management strives to maintain independence and objectivity in risk assessment and to give proactive input to lending transactions on a sustainable basis. For example, with respect to mining transactions, group Risk Management not only routinely requires environmental impact assessments or rehabilitation plans, but also relies on support from leading specialist mining consultants to ensure the highest level of international compliance. We focus on ensuring ongoing compliance with standards as they evolve. We acknowledge that waste management and recycling transactions (i.e. 'green' investment) are increasing and require a specialised understanding of the risk factors, due to both their technical nature and the lack of a single, recognised standard. This does present a new challenge to group Risk Management, as a sophisticated understanding of the more complex technical aspects of environmental compliance is necessary. We do support key provisions of the Equator principles but we are not a signatory.

Management and measurement of credit and counterparty risk Audited

Fundamental principles employed in the management of credit and counterparty risk are:

- A clear definition of our target market
- A quantitative and qualitative assessment of the creditworthiness of our counterparties
- Analysis of all related risks, including concentration risk (concentration risk considerations include asset class, industry, counterparty, and geographical concentration)
- Prudential limits
- Regular monitoring and review of existing and potential exposures once facilities have been approved
- A high level of executive involvement in decision making with non-executive review and oversight.

Regular reporting of credit and counterparty risk exposures within our operating units is made to management, the executives and the board at the BRCC. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents and implemented by our group Credit division.

Despite strict adherence to the above principles increased default risk may arise from unforeseen circumstances particularly in times of extreme market volatility and weak economic conditions.

Investec completes scenario tests on its loan portfolio with regard to the capital held. These tests stress the existing portfolio to allow the bank to identify underlying risks and manage them accordingly. These stresses include (but are not limited to) residential and commercial property prices, foreign exchange rates, default rates, impairments and capital usage. The credit risk stress tests also play an integral part in the bank's capital planning process.

A large proportion of the portfolio is not rated by external rating agencies. As a result we mainly place reliance upon internal considerations of counterparties and borrowers, and use ratings prepared externally where available as support. Within the credit approval process all available internal and external ratings are included in the assessment of the client quality.

The internal rating models used are specific to each portfolio. The internal ratings are used as an input into the credit decision and as a means of assessing the risk of rated portfolios. Ongoing development of internal rating models has yielded good results in project finance, private bank property-related transactions, corporate, bank and financial institutions areas of operation. We remain focused on developing our models in the light of our niche risk profile and against extreme downturn events.

Fitch, Standard and Poor's, Moody's and DBRS have been approved as eligible external credit assessment institutions (ECAIs) for the purposes of determining external credit ratings with the following elections:

- In relation to sovereigns and securitisations, Fitch, Moody's, Standard & Poors and DBRS have been selected by Investec as eligible ECAIs
- In relation to banks, corporates and debt securities, Fitch, Moody's and Standard & Poors are recognised as eligible ECAIs
- If two assessments are available, the more conservative will apply
- Where there are three or more credit ratings with different risk weightings, the credit ratings corresponding to the two lowest ratings should be referred to and the higher of those two ratings should be applied.

Investec Bank Limited conducts its mapping of credit exposures in accordance with the mapping procedures specified by the Registrar.

Credit and counterparty risk in South Africa

Credit and counterparty risk is assumed mainly through our Private Client, Corporate Banking and Asset Finance (Reichmans Capital) divisions.

Private Client

Lending products are primarily offered through our structured property finance, private client lending, specialised lending and growth and acquisition finance activities, and are targeted to meet the requirements of our clients. Central to our credit philosophy is the concept of sustainability of income through the cycle. As such, the client base has been defined to include high net worth clients (who through diversification of income streams will reduce income volatility) and individuals with a profession which has historically supported a high and sustainable income stream irrespective of the stage in the economic cycle.

A large portion of the lending portfolio is supported by residential and commercial property collateral. Income producing assets are generally substantially let with good quality anchor tenants. Collateral exposure to the South African property market is regionally diversified (primarily Pretoria, Johannesburg, Cape Town, Durban and Port Elizabeth). Serviceability of a loan advanced against property (and not only asset value) and quality of the client are primary considerations in the credit assessment process.

An analysis of the private client loan portfolio and asset quality information is provided on page 56.

Corporate Client

Investec Corporate Treasury provides money market, interest rate and foreign exchange products to corporates and institutions. We are an active market maker in the spot and forward US Dollar/Rand interbank markets. Trading transactions giving rise to issuer, settlement and replacement risk were among the primary areas of potential credit and counterparty risk in the year under review. Simulation-based methodologies have been implemented for the majority of the Corporate Treasury product offering, the benefit of which is the identification of increases in exposures as a result of changes in volatility and prices and the identification of roll-off risk.

As part of the daily management of liquidity, the treasury function places funds with the central bank (the SARB) and other commercial banks and financial institutions. These market counterparties are highly rated, investment grade entities with credit risk of a systemic nature.

The specialised finance, project finance and resource finance businesses lend money on a structured basis to corporates, government and institutions, with full recourse to either a suitable asset or the balance sheet of the entity to which the funds are advanced. Typical assets that are funded include property, plant and equipment, infrastructure and movable assets. Credit limits are set for each counterparty and monitored to ensure risk is mitigated. The credit appetite for each counterparty is based on the financial strength of the principal borrower, underlying security, cash flow and, in the case of trading products, the nature of the underlying security traded.

The resource finance business may be exposed to countries presenting complex legal and political risks. Political risk insurance is taken where necessary to ensure political risks are well managed. There is also strong adherence to prudent country risk limits to manage concentration risk on an ongoing basis. Most of the resource finance business activities form part of the corporate asset class (as defined by Basel II), since recourse in the event of default will be to the total assets of the corporate and not merely the resource project being financed.

Due to the relative illiquidity of the credit derivative market in South Africa, counterparty exposures and mitigation benefits obtained as a result of credit derivative transactions are negligible.

An analysis of the corporate client loan portfolio and asset quality information is provided on page 56.

ReichmansCapital

ReichmansCapital is an asset and trade finance business which operates on a premium margin business model for small and medium sized corporates. The business is a relatively small portion of the overall group credit exposure.

Credit and counterparty risk in Mauritius

Investec Bank (Mauritius) Limited offers various banking services and its primary business activities are corporate lending, property finance, resource finance and structured finance. The target market includes both corporate and private clients. Prudential limits have been set and are monitored daily. Investec Bank (Mauritius) Limited is a subsidiary of Investec Bank Limited. It has a decentralised credit approval and management process in compliance with our group credit philosophy, policy and procedures.

Asset quality analysis – credit risk classification and provisioning policy Audited

It is a policy requirement overseen by Central Credit Management that each operating division makes provision for specific impairments and calculates the appropriate level of portfolio impairments. This is in accordance with established group guidelines and in conjunction with the watchlist committee process. In the financial statements, credit losses and impairments are reported in accordance with International Financial Reporting Standards (IFRS).

The information provided below reflects the guidelines and definitions that have been applied in assessing the asset quality of credit exposures (see page 48). The impairment definitions and guidelines are consistent with IFRS. IFRS differs from the requirements laid out in the 'International Convergence of Capital Measurement and Capital Standards' of the Basel II framework which has been adopted by the banking regulators in all of the locales in which we have operations. IFRS focuses on the concept of incurred loss, whereas Basel II centres on the concept of expected loss. The reconciling differences are primarily due to the fact that IFRS impairments only reflect a decrease in the value of assets with credit risk where a 'loss trigger event' has occurred, and only that portion of the expected loss which has actually been incurred at the reporting date. A loss trigger event is an event which exhibits a high correlation to the crystallisation of loss.

Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
Performing assets	For assets which form part of a homogenous portfolio, a portfolio impairment is required which recognises asset impairments that have not been individually identified. The portfolio impairment takes into account past events and does not cover impairments to exposures arising out of uncertain future events. By definition, this impairment is only calculated for credit exposures which are managed on a portfolio basis and only for assets where a loss trigger event has occurred.	Past due	An account is considered to be past due when it is greater than zero and less than or equal to 60 days past due the contractual/credit agreed payment due date. Management however is not concerned and there is confidence in the counterparty's ability to repay the past due obligations.
		Special mention	The counterparty is placed in special mention when that counterparty is considered to be experiencing difficulties that may threaten the counterparty's ability to fulfil their credit obligation to the group (i.e. watchlist committee is concerned) for the following reasons: • Covenant breaches; • There is a slowdown in the counterparty's business activity; • An adverse trend in operations that signals a potential weakness in the financial strength of the counterparty; or • Any restructured credit exposures until appropriate watchlist committee decides otherwise. Ultimate loss is not expected, but may occur if adverse conditions persist. Supplementary reporting categories: • Credit exposures overdue 1 – 60 days • Credit exposures overdue 61 – 90 days.

Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
Assets in default	Specific impairments are evaluated on a case-by-case basis where objective evidence of impairment has arisen. In determining specific impairments, the following factors are considered: • Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business • Likely dividend or amount recoverable on liquidation or bankruptcy • Nature and extent of claims by other creditors • Amount and timing of expected cash flows • Realisable value of security held (or other credit mitigants) • Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.	Sub-standard	The counterparty is placed in sub-standard when the credit exposure reflects an underlying, well defined weakness that may lead to probable loss if not corrected. • The risk that such credit exposure may become an impaired asset is probable; • The bank is relying, to a large extent, on available collateral; or • The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the bank has to rely on secondary sources for repayment. These secondary sources may include collateral, the sale of a fixed asset, refinancing and further capital. Credit exposures overdue for more than 90 days will at a minimum be included in 'sub-standard' (or a lower quality category).
		Doubtful	• The counterparty is placed in doubtful when the credit exposure is considered to be impaired but not yet considered a final loss due to some pending factors such as a merger, new financing or capital injection which may strengthen the quality of the relevant exposure.
		Loss	• A counterparty is placed in the loss category when the credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted; or • Assets in this category are expected to be written off in the short term since the likelihood of future economic benefits resulting from such assets is remote.

Collateral is assessed with reference to the sustainability of value and the likelihood of realisation.

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Credit risk mitigation Audited

Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued.

The bulk of collateral taken by private clients is commercial and residential real estate. Commercial real estate generally takes the form of good quality property often underpinned by strong third party leases. Residential property is also generally of a high quality and based in desirable locations. Residential and commercial property valuations will continue to form part of our increased focus on collateral assessment.

It is our policy to obtain a formal valuation of every commercial property offered as collateral for a lending facility before advancing funds. Revaluations of commercial properties held as collateral at the discretion of the relevant credit committee. Residential properties are valued by desktop valuation and/or approved valuers, if applicable. Other common forms of collateral in the retail asset class are motor vehicles, cash and share portfolios.

The majority of credit mitigation techniques linked to trading activity is in the form of netting (primarily International Swap Dealers Association, Global Master Securities Lending Agreement and International Securities Master Agreement) and margining agreements (primarily through Credit Support Agreements). Where netting agreements have been signed and the enforceability is supported by external legal opinion within the legal jurisdiction of the agreement, the exposures for all product categories covered by such agreements should be stated net of any liabilities owing by Investec to the agreement counterparty for those product categories.

Set-off has been applied between assets subject to credit risk and related liabilities in the financial statements where:

- A legally enforceable right to set-off exists
- There is the intention and ability to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

In addition to the above accounting set-off criteria, banking regulators impose the following additional criteria:

- Debit and credit balances relate to the same obligor/counterparty
- Debit and credit balances are denominated in the same currency and have identical maturities
- Exposures subject to set-off are risk-managed on a net basis
- Market practice considerations.

For this reason there will be instances where credit and counterparty exposures are displayed on a net basis in these financial statements but reported on a gross basis to regulators.

An analysis of collateral is provided on page 57.

Credit and counterparty risk year in review

The financial year in review has seen a combination of trends and factors impacting on the credit quality and assessment of credit and counterparty risk:

- The existing debt burden on consumers in a low interest rate environment
- Low to moderate levels of discretionary spending and household demand for credit with increased spending emerging from the fourth quarter of 2011
- Continuation of inflationary pressures as a result of oil and utility price increases
- Increased investment by corporates from the fourth quarter of 2011

- Low to moderate infrastructure spending by government
- The European sovereign debt crisis and contagion fears
- Depreciation in the value of the Rand against the US Dollar, Pound Sterling and Euro, most notably in the third quarter of 2011
- Less market volatility, although the European debt crisis contributed to market volatility towards the end of the third quarter of 2011. Strong growth in the first quarter of 2012 with the JSE All Share index reflecting overall growth for the year in review of 4.2%
- The property market remains under pressure with low growth across the residential property market and moderate growth across the commercial property market.

The high net worth and/or stable income streams of our target market clients provided a level of protection from decreases in property values over the last couple of years. Many clients built an effective equity buffer over a period of time, resulting in lower average loan to value ratios which have reduced potential losses on depreciation of values.

Lower levels of volatility relative to previous financial years have resulted in lower profitability levels for certain of the trading divisions.

For both interest rate and foreign exchange rate products simulation methodologies are employed which enable us to identify more accurately the level of potential exposures to counterparties for these trading activities. The methodologies recognise volume of trading, volatility of products traded, deal tenor and credit mitigants in deriving granular counterparty exposure profiles (and, in so doing, allow for roll-off risk assessments).

Loans and advances secured by share portfolios (including BEE transactions) are monitored frequently. Most of these counterparties remain within credit approved loan to value or cover ratios and are performing on current debt obligations.

For assets written during the current year there has been adherence to lower loan to value lending and competitive pressure on margins.

Credit quality on core loans and advances improved. Core loans and advances increased by 6.6% to R128.7 billion. Default loans (net of impairments) as a percentage of core loans and advances decreased from 3.97% to 2.73% as some transactions have settled and others have been written off. The credit loss ratio has improved from 0.71% to 0.65%. The majority of current financial year and historical defaults were recorded in the private client loan portfolio and largely comprise a relatively small number of clients where development finance was provided at reasonable loan to values but with no serviceability except realisation of collateral. Defaults have occurred when clients have been unable to realise sales to service and repay.

A lot of emphasis has been placed on the strengthening of recoveries and administrative areas and increased involvement from executive and senior management to deal with potential problematic loans and working on the best outcome/solution for our clients and ourselves. Managing certain of the larger defaulted property developments in order to maximise recoveries will take longer than originally anticipated.

The corporate client loan portfolio reported one material default for the financial year in review and the settlement of a historical default exposure.

Credit risk-regulatory considerations

Effective January 2012, the South African Banks Act was amended by the regulator in order to bring it in line with the Basel Committee on Banking Supervision's (BCBS) Enhancements to the Basel II framework document, commonly referred to as Basel 2.5. Investec's credit capital holding was compliant prior to the implementation of the revisions and there was thus no material capital impact, while changes to disclosure were implemented successfully as of January 2012.

In addition, in order to enhance risk coverage, and in an attempt to capture the risk of the large mark to market losses incurred by many large financial institutions during the financial crisis where credit spreads on debt instruments widened substantially even without deterioration in the credit quality and ratings of the counterparties, the BCBS has introduced an additional capital charge on the over the counter derivative portfolio of the bank. This charge is referred to as Credit Valuation Adjustment (CVA).

Further significant ratios required for disclosure in the future will include the Leverage Ratio (a measure of qualifying capital to both on- and off-balance sheet exposure pre the application of any credit conversion factors). Together with the other major banks in South Africa, Investec has been participating in a global Quantitative Impact Study (QIS) in order to gauge the impact of these and other regulatory changes being proposed by the BCBS in the Basel III framework.

The SARB have released their first draft of proposed amendments to the Banks Act in line with the proposed Basel III regulatory framework for more resilient banks and banking systems, in many cases, the amendments will follow a phased approach with implementation beginning 2013. In line with Investec's prudent risk management and governance frameworks, we will continue to engage with the regulator and seek to adopt market best practice in accordance with these regulatory amendments.

Credit and counterparty risk information

Pages 34 to 40 describe where and how credit risk is assumed in our operations. The tables that follow provide an analysis of the credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

Credit and counterparty exposures increased by 14.1% to R282.5 billion largely as a result of an increase in cash and near cash balances and core loans and advances. Cash and near cash balances increased by 31.3% to R69.1 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks, non-sovereign and non-bank cash placements, sovereign debt securities.

Audited R'million	31 March 2012	31 March 2011**	% change	Average*
Cash and balances at central banks	9 303	6 813	36.5%	8 058
Loans and advances to banks	20 511	6 132	>100.0%	13 322
Non-sovereign and non-bank cash placements	7 885	5 829	35.3%	6 857
Reverse repurchase agreements and cash collateral on securities borrowed	5 570	11 615	(52.0%)	8 593
Sovereign debt securities	29 699	29 172	1.8%	29 436
Bank debt securities	27 695	18 169	52.4%	22 932
Other debt securities	5 825	4 588	27.0%	5 207
Derivative financial instruments	10 251	10 983	(6.7%)	10 617
Securities arising from trading activities	1 472	144	>100.0%	807
Loans and advances to customers (gross)	123 924	115 830	7.0%	119 876
Own originated loans and advances to customers securitised (gross)	6 132	6 343	(3.3%)	6 237
Other loans and advances (gross)	680	860	(20.9%)	770
Other assets	555	1 493	(62.8%)	1 025
Total on-balance sheet exposures	249 502	217 971	14.5%	233 737
Guarantees^	5 579	5 452	2.3%	5 516
Contingent liabilities, committed facilities and other	27 426	24 081	13.9%	25 753
Total off-balance sheet exposures	33 005	29 533	11.8%	31 269
Total gross credit and counterparty exposures pre collateral or other credit enhancements	282 507	247 504	14.1%	265 006

* *Where the average is based on a straight-line average.*

** *Restated as discussed on page 123.*

^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

A further analysis of our on-balance sheet credit and counterparty exposures

The table below indicates in which class of asset (on the face of the consolidated balance sheet) our on-balance sheet credit and counterparty exposures are reflected. Not all assets included in the balance sheet bear credit and counterparty risk.

Audited R'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
As at 31 March 2012				
Cash and balances at central banks	9 303	–		9 303
Loans and advances to banks	20 511	–		20 511
Non-sovereign and non-bank cash placements	7 885	–		7 885
Reverse repurchase agreements and cash collateral on securities borrowed	5 570	–		5 570
Sovereign debt securities	29 699	–		29 699
Bank debt securities	27 695	–		27 695
Other debt securities	5 825	–		5 825
Derivative financial instruments	10 251	344		10 595
Securities arising from trading activities	1 472	1 812		3 284
Investment portfolio	–	7 316	1	7 316
Loans and advances to customers	123 924	(1 303)	2	122 621
Own originated loans and advances to customers securitised	6 132	(6)	2	6 126
Other loans and advances	680	(11)	2	669
Other securitised assets	–	1 712	3	1 712
Interest in associated undertakings	–	38		38
Deferred taxation assets	–	372		372
Other assets	555	5 731	4	6 286
Property, plant and equipment	–	542		542
Investment properties	–	4 858		4 858
Goodwill	–	169		169
Intangible assets	–	97		97
Insurance assets	–	76 903		76 903
Total on-balance sheet exposures	249 502	98 574		348 076

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 58 and 59.*
2. *Largely relates to impairments.*
3. *Largely includes liquidity facilities provided to third party corporate securitisation vehicles. These facilities have remained undrawn and are reflected as a contingent liability, i.e. off-balance sheet exposures to the bank.*
4. *Other assets include settlement debtors where we deem to have no credit risk as they are settled on a delivery against payment basis.*

Audited R'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
As at 31 March 2011*				
Cash and balances at central banks	6 813	–		6 813
Loans and advances to banks	6 132	–		6 132
Non-sovereign and non-bank cash placements	5 829	–		5 829
Reverse repurchase agreements and cash collateral on securities borrowed	11 615	–		11 615
Sovereign debt securities	29 172	–		29 172
Bank debt securities	18 169	–		18 169
Other debt securities	4 588	–		4 588
Derivative financial instruments	10 983	506		11 489
Securities arising from trading activities	144	2 728		2 872
Investment portfolio	–	7 411	1	7 411
Loans and advances to customers	115 830	(1 380)	2	114 450
Own originated loans and advances to customers securitised	6 343	(9)	2	6 334
Other loans and advances	860	(76)	2	784
Other securitised assets	–	1 952	3	1 952
Interest in associated undertakings	–	135		135
Deferred taxation assets	–	404		404
Other assets	1 493	3 745	4	5 238
Property and equipment	–	467		467
Investment properties	–	4 127		4 127
Goodwill	–	203		203
Intangible assets	–	111		111
Insurance assets	–	69 180		69 180
Total on-balance sheet exposures	217 971	89 504		307 475

* *Restated as discussed on page 123.*
1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 58 and 59.*
2. *Largely relates to impairments.*
3. *Largely includes liquidity facilities provided to third party corporate securitisation vehicles. These facilities have remained undrawn and are reflected as a contingent liability, i.e. off-balance sheet exposures to the bank.*
4. *Other assets include settlement debtors where we deem to have no credit risk as they are settled on a delivery against payment basis.*

Summary analysis of gross credit and counterparty exposures by industry

Private client loans account for 74.7% of total core loans and advances, as represented by the industry classification 'HNW and professional individuals'. A description of the type of lending we undertake within the Private Client division is provided on page 37 and a more detailed analysis of the private client loan portfolio is provided on page 56. The remainder of core loans and advances largely reside within our Corporate Client division and are evenly spread across industry sectors. A description of the type of lending we undertake within the Corporate Client division is provided on page 37 and a more detailed analysis of the corporate client loan portfolio is provided on page 56.

Other credit and counterparty exposures are largely reflective of cash and near cash balances held with institutions and central banks, thus the large balance reflected in the 'public and non-business services' and 'finance and insurance' sectors. These exposures also include off-balance sheet items such as guarantees, committed facilities and contingent liabilities, largely to our HNW and professional individual Private Client division clients.

Breakdown of gross credit exposure by industry

R'million	Gross core loans and advances		Other credit and counterparty exposures		Total	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011	31 March 2012	31 March 2011
HNW and professional individuals	97 178	89 459	26 762	23 811	123 940	113 270
Agriculture	448	509	100	202	548	711
Electricity, gas and water (utility services)	1 308	909	96	183	1 404	1 092
Public and non-business services	837	799	39 824	36 832	40 661	37 631
Business services	2 608	1 564	925	549	3 533	2 113
Finance and insurance	6 081	10 712	71 427	54 445	77 508	65 157
Retailers and wholesalers	2 004	1 774	2 880	2 213	4 884	3 987
Manufacturing and commerce	5 322	5 435	3 263	2 161	8 585	7 596
Construction	466	424	505	49	971	473
Commercial real estate	4 891	3 314	1 298	1 089	6 189	4 403
Mining and resources	2 713	1 711	3 593	2 627	6 306	4 338
Leisure, entertainment and tourism	1 370	1 885	375	194	1 745	2 079
Transport and communication	4 830	3 678	1 403	976	6 233	4 654
Total	130 056	122 173	152 451	125 331	282 507	247 504

Gross credit and counterparty exposures by residual contractual maturity as at 31 March 2012

R'million	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	>10 years	Total
Cash and balances at central banks	9 274	–	–	–	–	29	9 303
Loans and advances to banks	18 274	138	314	1 656	129	–	20 511
Non-sovereign and non-bank cash placements	7 884	–	–	–	1	–	7 885
Reverse repurchase agreements and cash collateral on securities borrowed	3 620	–	360	673	917	–	5 570
Sovereign debt securities	11 675	6 888	4 416	2 764	3 879	77	29 699
Bank debt securities	1 831	6 361	4 939	6 194	6 431	1 939	27 695
Other debt securities	223	–	25	4 360	1 121	96	5 825
Derivative financial instruments	708	1 226	756	4 269	2 608	684	10 251
Securities arising from trading activities	789	–	15	486	171	11	1 472
Loans and advances to customers	13 352	5 190	11 562	52 646	14 301	26 873	123 924
Own originated loans and advances to customers securitised	10	11	29	902	392	4 788	6 132
Other loans and advances	–	–	–	680	–	–	680
Other assets	555	–	–	–	–	–	555
Total on-balance sheet exposures	68 195	19 814	22 416	74 630	29 950	34 497	249 502
Guarantees	1 052	922	283	851	2 314	157	5 579
Contingent liabilities, committed facilities and other	5 391	1 202	1 356	4 682	4 810	9 985	27 426
Total off-balance sheet exposures	6 443	2 124	1 639	5 533	7 124	10 142	33 005
Total gross credit and counterparty exposures pre collateral or other credit enhancements	74 638	21 938	24 055	80 163	37 074	44 639	282 507

Detailed analysis of gross credit and counterparty exposures by industry as at 31 March 2012

R'million	HNW and professional individuals	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services
Cash and balances at central banks	–	–	–	9 303	–
Loans and advances to banks	–	–	–	–	5
Non-sovereign and non-bank cash placements	–	100	–	–	364
Reverse repurchase agreements and cash collateral on securities borrowed	37	–	–	43	–
Sovereign debt securities	–	–	–	29 699	–
Bank debt securities	–	–	–	–	–
Other debt securities	–	–	–	110	–
Derivative financial instruments	11	–	60	–	88
Securities arising from trading activities	–	–	–	668	–
Loans and advances to customers (gross)	91 046	448	1 308	837	2 608
Own originated loans and advances to customers securitised (gross)	6 132	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–
Other assets	–	–	–	–	–
Total on-balance sheet exposures	97 226	548	1 368	40 660	3 065
Guarantees	4 033	–	18	1	20
Contingent liabilities, committed facilities and other	22 681	–	18	–	448
Off-balance sheet exposures	26 714	–	36	1	468
Total gross credit and counterparty exposures pre collateral or other credit enhancements	123 940	548	1 404	40 661	3 533

	Finance and insurance	Retailers and wholesalers	Manufac-turing and commerce	Construction	Commercial real estate	Mining and resources	Leisure, entertainment and tourism	Transport and com-munication	Total
	–	–	–	–	–	–	–	–	9 303
	20 506	–	–	–	–	–	–	–	20 511
	1 268	2 248	2 563	174	–	817	–	351	7 885
	5 490	–	–	–	–	–	–	–	5 570
	–	–	–	–	–	–	–	–	29 699
	27 695	–	–	–	–	–	–	–	27 695
	4 880	415	–	–	198	103	–	119	5 825
	8 828	108	63	1	928	42	–	122	10 251
	751	26	26	–	–	–	–	1	1 472
	6 081	2 004	5 322	466	4 891	2 713	1 370	4 830	123 924
	–	–	–	–	–	–	–	–	6 132
	680	–	–	–	–	–	–	–	680
	555	–	–	–	–	–	–	–	555
	76 734	4 801	7 974	641	6 017	3 675	1 370	5 423	249 502
	21	28	189	219	–	946	99	5	5 579
	753	55	422	111	172	1 685	276	805	27 426
	774	83	611	330	172	2 631	375	810	33 005
	77 508	4 884	8 585	971	6 189	6 306	1 745	6 233	282 507

An analysis of our core loans and advances, asset quality and impairments

Calculation of core loans and advances to customers

Audited R'million	31 March 2012	31 March 2011
Loans and advances to customers as per balance sheet	122 621	114 450
Add: own originated loans and advances to customers securitised as per the balance sheet	6 126	6 334
Net gross core loans and advances to customers	128 747	120 784

The tables that follow provide information with respect to the asset quality of our core loans and advances to customers. An overview of developments during the financial year is provided on pages 40 and 41.

Audited R'million	31 March 2012	31 March 2011
Gross core loans and advances to customers	130 056	122 173
Total impairments	(1 309)	(1 389)
Portfolio impairments	(206)	(319)
Specific impairments	(1 103)	(1 070)
Net core loans and advances to customers	128 747	120 784
Average gross core loans and advances to customers	126 115	120 555
Current loans and advances to customers	123 391	114 240
Past due loans and advances to customers (1 – 60 days)	742	1 085
Special mention loans and advances to customers	1 101	658
Default loans and advances to customers	4 822	6 190
Gross core loans and advances to customers	130 056	122 173
Current loans and advances to customers	123 391	114 240
Default loans that are current and not impaired	130	73
Gross core loans and advances to customers that are past due but not impaired	3 274	3 944
Gross core loans and advances to customers that are impaired	3 261	3 916
Gross core loans and advances to customers	130 056	122 173
Total income statement charge for impairments on loans and advances	(824)	(860)
Gross default loans and advances to customers	4 822	6 190
Specific impairments	(1 103)	(1 070)
Portfolio impairments	(206)	(319)
Defaults net of impairments	3 513	4 801
Collateral and other credit enhancements	5 897	7 164
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	1.01%	1.14%
Total impairments as a % of gross default loans	27.15%	22.44%
Gross defaults as a % of gross core loans and advances to customers	3.71%	5.07%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.73%	3.97%
Net defaults as a % of gross core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross loans and advances)	0.65%	0.71%

An analysis of core loans and advances to customers and asset quality by client type as at 31 March 2012

Audited R'million	Private Client**	Corporate Client**	Other*	Total
Gross core loans and advances to customers	97 178	27 869	5 009	130 056
Total impairments	(995)	(119)	(195)	(1 309)
Portfolio impairments	(82)	(24)	(100)	(206)
Specific impairments	(913)	(95)	(95)	(1 103)
Net core loans and advances to customers	96 183	27 750	4 814	128 747
Average gross core loans and advances	93 319	27 851	4 945	126 115
Current loans and advances to customers	91 183	27 454	4 754	123 391
Past due loans and advances to customers (1 – 60 days)	456	204	82	742
Special mention loans and advances to customers	1 063	–	38	1 101
Default loans and advances to customers	4 476	211	135	4 822
Gross core loans and advances to customers	97 178	27 869	5 009	130 056
Current loans and advances to customers	91 183	27 454	4 754	123 391
Default loans that are current and not impaired	120	10	–	130
Gross core loans and advances to customers that are past due but not impaired	2 950	204	120	3 274
Gross core loans and advances to customers that are impaired	2 925	201	135	3 261
Gross core loans and advances to customers	97 178	27 869	5 009	130 056
Total income statement charge for impairments on loans and advances	(716)	(148)	40	(824)
Gross default loans and advances to customers	4 476	211	135	4 822
Specific impairments	(913)	(95)	(95)	(1 103)
Portfolio impairments	(82)	(24)	(100)	(206)
Defaults net of impairments	3 481	92	(60)	3 513
Collateral and other credit enhancements	5 651	201	45	5 897
Net default loans and advances to customers (limited to zero)	–	–	–	–
Total impairments as a % of gross core loans and advances to customers	1.02%	0.43%	3.89%	1.01%
Total impairments as a % of gross default loans	22.23%	56.40%	>100.0%	27.15%
Gross defaults as a % of gross core loans and advances to customers	4.61%	0.76%	2.70%	3.71%
Defaults (net of impairments) as a % of net core loans and advances to customers	3.62%	0.33%	(1.25%)	2.73%
Net defaults as a % of core loans and advances to customers	–	–	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross loans and advances)	0.77%	0.52%	(0.81%)	0.65%

* *Largely includes lending activities within our central funding and international trade finance businesses.*

** *A further analysis of our private client loan portfolio, broken down by type of loan, is provided on page 56.*

An analysis of core loans and advances to customers and asset quality by client type as at 31 March 2011

Audited R'million	Private Client	Corporate Client	Other*	Total
Gross core loans and advances to customers	89 459	27 832	4 882	122 173
Total impairments	(1 085)	(28)	(276)	(1 389)
Portfolio impairments	(157)	(18)	(144)	(319)
Specific impairments	(928)	(10)	(132)	(1 070)
Net core loans and advances to customers	88 374	27 804	4 606	120 784
Average gross core loans and advances	87 688	28 313	4 554	120 555
Current loans and advances to customers	81 972	27 699	4 569	114 240
Past due loans and advances to customers (1 – 60 days)	939	17	129	1 085
Special mention loans and advances to customers	567	74	17	658
Default loans and advances to customers	5 981	42	167	6 190
Gross core loans and advances to customers	89 459	27 832	4 882	122 173
Current loans and advances to customers	81 972	27 699	4 569	114 240
Default loans that are current and not impaired	73	–	–	73
Gross core loans and advances to customers that are past due but not impaired	3 707	91	146	3 944
Gross core loans and advances to customers that are impaired	3 707	42	167	3 916
Gross core loans and advances to customers	89 459	27 832	4 882	122 173
Total income statement charge for impairments on loans and advances	(1 047)	154	33	(860)
Gross default loans and advances to customers	5 981	42	167	6 190
Specific impairments	(928)	(10)	(132)	(1 070)
Portfolio impairments	(157)	(18)	(144)	(319)
Defaults net of impairments	4 896	14	(109)	4 801
Collateral and other credit enhancements	7 084	32	48	7 164
Net default loans and advances to customers (limited to zero)	–	–	–	–
Total impairments as a % of gross core loans and advances to customers	1.21%	0.10%	5.65%	1.14%
Total impairments as a % of gross default loans	18.14%	66.67%	>100.0%	22.44%
Gross defaults as a % of gross core loans and advances to customers	6.69%	0.15%	3.42%	5.07%
Defaults (net of impairments) as a % of net core loans and advances to customers	5.54%	0.05%	(2.37%)	3.97%
Net defaults as a % of core loans and advances to customers	–	–	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross loans and advances)	1.19%	(0.53%)	(0.72%)	0.71%

* *Largely includes lending activities within our central funding and international trade finance businesses.*

An age analysis of past due and default core loans and advances to customers

Audited R'million	31 March 2012	31 March 2011
Default loans that are current	670	640
1 – 60 days	1 401	1 325
61 – 90 days	504	435
91 – 180 days	619	859
181 – 365 days	391	1 834
>365 days	3 080	2 840
Past due and default core loans and advances to customers (actual capital exposure)	6 665	7 933
1 – 60 days	623	310
61 – 90 days	314	106
91 – 180 days	263	342
181 – 365 days	267	1 197
>365 days	2 460	2 525
Past due and default core loans and advances to customers (actual amount in arrears)	3 927	4 480

A further age analysis of past due and default core loans and advances to customers

Audited R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
As at 31 March 2012							
Watchlist loans neither past due nor impaired							
Total capital exposure	130	–	–	–	–	–	130
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 353	496	440	249	736	3 274
Amount in arrears	–	607	309	190	181	583	1 870
Gross core loans and advances to customers that are impaired							
Total capital exposure	540	48	8	179	142	2 344	3 261
Amount in arrears	–	16	5	73	86	1 877	2 057
As at 31 March 2011							
Watchlist loans neither past due nor impaired							
Total capital exposure	73	–	–	–	–	–	73
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 234	372	704	842	792	3 944
Amount in arrears	–	278	77	270	568	564	1 757
Gross core loans and advances to customers that are impaired							
Total capital exposure	567	91	63	155	992	2 048	3 916
Amount in arrears	–	32	29	72	629	1 961	2 723

An age analysis of past due and default core loans and advances to customers as at 31 March 2012 (based on total capital exposure)

Audited R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	742	–	–	–	–	742
Special mention	–	424	396	88	71	122	1 101
Special mention (1 – 90 days)	–	424	115	88*	71*	122*	820
Special mention (61 – 90 days and item well secured)	–	–	281	–	–	–	281
Default	670	235	108	531	320	2 958	4 822
Sub-standard	37	10	96	247	141	225	756
Doubtful	633	225	12	284	179	2 733	4 066
Total	670	1 401	504	619	391	3 080	6 665

An age analysis of past due and default core loans and advances to customers as at 31 March 2012 (based on actual amount in arrears)

Audited R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	106	–	–	–	–	106
Special mention	–	410	213	54	50	97	824
Special mention (1 – 90 days)	–	410	81	54*	50*	97*	692
Special mention (61 – 90 days and item well secured)	–	–	132	–	–	–	132
Default	–	107	101	209	217	2 363	2 997
Sub-standard	–	6	96	109	126	196	533
Doubtful	–	101	5	100	91	2 167	2 464
Total	–	623	314	263	267	2 460	3 927

* *Largely relates to solvent deceased estates and bonds under registration at the deeds office. Due to the lengthy external process with respect to these exposures, which are out of the control of Investec, these exposures have been classified as special mention and will remain there until settled or their credit quality deteriorates.*

An age analysis of past due and default core loans and advances to customers as at 31 March 2011 (based on total capital exposure)

Audited R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	1 085	–	–	–	–	1 085
Special mention	–	48	358	216	7	29	658
Special mention (1 – 90 days)	–	48	118	216*	7*	29*	418
Special mention (61 – 90 days and item well secured)	–	–	240	–	–	–	240
Default	640	192	77	643	1 827	2 811	6 190
Sub-standard	53	70	9	436	640	448	1 656
Doubtful	587	122	68	207	1 187	2 363	4 534
Total	640	1 325	435	859	1 834	2 840	7 933

An age analysis of past due and default core loans and advances to customers as at 31 March 2011 (based on actual amount in arrears)

Audited R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	>365 days	Total
Past due (1 – 60 days)	–	260	–	–	–	–	260
Special mention	–	1	74	37	–	17	129
Special mention (1 – 90 days)	–	1	3	37*	–	17*	58
Special mention (61 – 90 days and item well secured)	–	–	71	–	–	–	71
Default	–	49	32	305	1 197	2 508	4 091
Sub-standard	–	5	2	211	421	300	939
Doubtful	–	44	30	94	776	2 208	3 152
Total	–	310	106	342	1 197	2 525	4 480

* *Relates to solvent deceased estates and bonds under registration at the deeds office. Due to the lengthy external process with respect to these exposures, which are out of the control of Investec, these exposures have been classified as special mention and will remain there until settled or their credit quality deteriorates.*

An analysis of core loans and advances to customers

Audited R'million	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
As at 31 March 2012								
Current core loans and advances	123 391	–	–	123 391	–	(195)	123 196	–
Past due (1 – 60 days)	–	742	–	742	–	(3)	739	106
Special mention	–	1 101	–	1 101	–	(8)	1 093	824
Special mention (1 – 90 days)	–	820	–	820	–	(7)	813	692
Special mention (61 – 90 days and item well secured)	–	281	–	281	–	(1)	280	132
Default	130	1 431	3 261	4 822	(1 103)	–	3 719	2 997
Sub-standard	37	718	1	756	–	–	756	533
Doubtful	93	713	3 260	4 066	(1 103)	–	2 963	2 464
Total	123 521	3 274	3 261	130 056	(1 103)	(206)	128 747	3 927
As at 31 March 2011								
Current core loans and advances	114 240	–	–	114 240	–	(304)	113 936	–
Past due (1 – 60 days)	–	1 085	–	1 085	–	(9)	1 076	260
Special mention	–	658	–	658	–	(6)	652	129
Special mention (1 – 90 days)	–	418	–	418	–	(3)	415	58
Special mention (61 – 90 days and item well secured)	–	240	–	240	–	(3)	237	71
Default	73	2 201	3 916	6 190	(1 070)	–	5 120	4 091
Sub-standard	53	1 602	1	1 656	-	–	1 656	939
Doubtful	20	599	3 915	4 534	(1 070)	–	3 464	3 152
Total	114 313	3 944	3 916	122 173	(1 070)	(319)	120 784	4 480

An analysis of core loans and advances to customers and impairments by counterparty type

Audited R'million	Private Banking professional and HNW individuals	Corporate sector	Banking, insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance	Total gross core loans and advances to customers
As at 31 March 2012						
Current core loans and advances	91 184	23 450	6 070	837	1 850	123 391
Past due (1 – 60 days)	456	204	–	–	82	742
Special mention	1 062	–	–	–	39	1 101
Special mention (1 – 90 days)	820	–	–	–	–	820
Special mention (61 – 90 days and item well secured)	242	–	–	–	39	281
Default	4 476	230	11	–	105	4 822
Sub-standard	755	–	–	–	1	756
Doubtful	3 721	230	11	–	104	4 066
Total gross core loans and advances to customers	97 178	23 884	6 081	837	2 076	130 056
Total impairments	(995)	(233)	(13)	(1)	(67)	(1 309)
Specific impairments	(913)	(113)	(10)	–	(67)	(1 103)
Portfolio Impairments	(82)	(120)	(3)	(1)	–	(206)
Net core loans and advances to customers	96 183	23 651	6 068	836	2 009	128 747
As at 31 March 2011						
Current core loans and advances	81 973	19 347	10 708	799	1 413	114 240
Past due (1 – 60 days)	939	13	4	–	129	1 085
Special mention	567	74	–	–	17	658
Special mention (1 – 90 days)	344	74	–	–	–	418
Special mention (61 – 90 days and item well secured)	223	–	–	–	17	240
Default	5 980	121	–	–	89	6 190
Sub-standard	1 655	–	–	–	1	1 656
Doubtful	4 325	121	–	–	88	4 534
Total gross core loans and advances to customers	89 459	19 555	10 712	799	1 648	122 173
Total impairments	(1 085)	(245)	(6)	–	(53)	(1 389)
Specific impairments	(928)	(89)	–	–	(53)	(1 070)
Portfolio Impairments	(157)	(156)	(6)	–	–	(319)
Net core loans and advances to customers	88 374	19 310	10 706	799	1 595	120 784

Summary analysis of gross core loans and advances to customers by counterparty type

Audited R'million	31 March 2012	31 March 2011
Private Banking professional and HNW individuals	97 178	89 459
Corporate sector	23 884	19 555
Banking, insurance, financial services (excluding sovereign)	6 081	10 712
Public and government sector (including central banks)	837	799
Trade finance	2 076	1 648
Total gross core loans and advances to customers	130 056	122 173

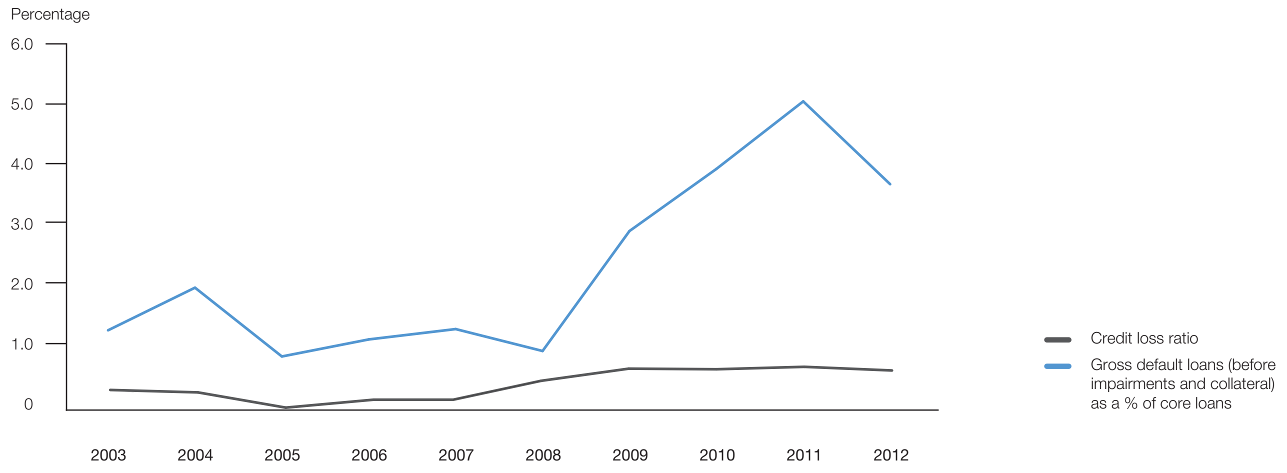
An analysis of default core loans and advances as at 31 March 2012

R'million	Gross core loans	Gross defaults	Collateral	Balance sheet impairments
Private Client				
Residential property	37 876	2 323	2 465	(502)
Residential property investment	3 982	278	274	(79)
Residential mortgages (owner occupied)	29 860	603	746	(116)
Residential property development	1 330	152	147	(34)
Residential estates/land	2 704	1 290	1 298	(273)
Commercial property	43 480	1 227	1 594	(210)
Commercial property investment	38 786	820	1 060	(113)
Commercial property land	3 029	325	338	(94)
Commercial property development	1 665	82	196	(3)
Other	15 822	926	1 592	(283)
Asset backed lending	3 650	404	929	(150)
Unlisted securities and general corporate lending	6 017	29	47	(8)
Unsecured lending^	1 356	38	8	(30)
Other	4 799	455	608	(95)
Total Private Client	97 178	4 476	5 651	(995)
Corporate Client				
Acquisition finance	2 047	–	–	–
Asset finance	3 346	–	–	(6)
Corporate loans	18 420	11	1	(27)
Project finance	2 254	200	200	(86)
Resource finance and commodities	1 802	–	–	–
Total Corporate Client	27 869	211	201	(119)
Other*	5 009	135	45	(195)
Total group	130 056	4 822	5 897	(1 309)

* *Largely includes lending activities within our central funding and international trade finance business.*

^ *Largely relates to debit card balances.*

Asset quality ratios



Collateral

A summary of collateral is provided in the table below

R'million	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
As at 31 March 2012			
Eligible financial collateral	22 799	2 412	25 211
Listed shares	21 178	2 345	23 523
Cash	1 621	67	1 688
Debt securities issued by sovereigns	–	–	–
Mortgage bonds	163 239	15	163 254
Residential mortgages	72 527	–	72 527
Commercial property development	9 504	15	9 519
Commercial property investments	81 208	–	81 208
Other collateral	49 206	873	50 079
Unlisted shares	13 226	–	13 226
Bonds other than mortgage bonds	5 855	–	5 855
Debtors, stock and other corporate assets	8 202	–	8 202
Guarantees	9 440	721	10 161
Other	12 483	152	12 635
Total collateral	235 244	3 300	238 544
As at 31 March 2011			
Eligible financial collateral	25 983	8 053	34 036
Listed shares	22 881	1 714	24 595
Cash	3 015	4 901	7 916
Debt securities issued by sovereigns	87	1 438	1 525
Mortgage bonds	141 640	15	141 655
Residential mortgages	61 106	–	61 106
Commercial property development	794	15	809
Commercial property investments	79 740	–	79 740
Other collateral	38 312	1 072	39 384
Unlisted shares	13 357	–	13 357
Bonds other than mortgage bonds	2 273	220	2 493
Debtors, stock and other corporate assets	911	–	911
Guarantees	11 397	852	12 249
Other	10 374	–	10 374
Total collateral	205 935	9 140	215 075

* *A large percentage of these exposures (for example bank placements) are to highly rated financial institutions where limited collateral would be required due to the nature of the exposure.*

Equity and investment risk in the banking book

Equity and investment risk description

Equity and investment risk in the banking book arises primarily from the following activities conducted within the group:

- Principal Investments (Private Equity and Direct Investments): Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. In addition, as a result of our local market knowledge and investment banking expertise, we are well positioned to take direct positions in listed shares where we believe that the market is mispricing the value of the underlying portfolio of assets. These investment positions are carefully researched with the intent to stimulate corporate activity. We also continue to pursue opportunities to help create and grow black owned and controlled companies
- Lending transactions (within the Private Client and Corporate Client divisions): The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- Property activities: We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters
- Central Funding: The Central Funding division is the custodian of certain equity and property investments, which have largely arisen from corporate acquisitions made, notably in the early 2000s.

Management of equity and investment risk

As equity and investment risk arise from a variety of activities conducted by us, the monitoring and measurement thereof varies across transactions and/or type of activity.

Nature of equity and investment risk	Management of risk
Listed equities	Investment committee, market risk management and ERRF
Investment Banking Principal Finance investments	Investment committee, the Investec Bank Limited Direct Investments division investment committee and ERRF
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees and ERRF
Investment and trading properties	Investment committee, Investec Property Group Investment committee in South Africa and ERRF
Central Funding investments	Investment committee and ERRF

Stress testing scenario analyses are performed regularly and reported to ERRF, BRCC and the board. As a matter of course, concentration risk is avoided and investments are well spread across geographies and industries.

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to page 126 and pages 152 to 154 for factors taken into consideration in determining fair value. We have a low level of assets exposed to the volatility of IFRS fair value accounting with 'level 3' assets amounting to 0.01% of total assets (refer to page 152 for further information).

The table below provides an analysis of income and revaluations recorded with respect to these investments.

Audited R'million Category	Income (pre funding costs)			
	Unrealised	Realised	Dividends	Total
For the year ended 31 March 2012				
Unlisted investments	70	517	391	978
Listed equities	(281)	(63)	6	(338)
Investment and trading properties^	215	(39)	2	178
Warrants, profit shares and other embedded derivatives	(26)	108	–	82
Total	(22)	523	399	900

^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 50.01%. It is noted that the ultimate impact on the income statement reflects the group's net attributable earnings from the investment.*

Unrealised revaluation gains through profit and loss are included in tier 1 capital. Revaluations that are posted directly to equity are excluded from capital within Investec Limited.

Summary of investments held and stress testing analyses

The balance sheet value of investments is indicated in the table below

Audited R'million Category	On-balance sheet value of investments 31 March 2012	Valuation change stress test* 31 March 2012
Unlisted investments	6 270	909
Listed equities	1 046	236
Investment and trading properties^	5 830	624
Warrants, profit shares and other embedded derivatives	386	135
Total	13 532	1 904

^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 50.01%.*

* *In order to assess our earnings sensitivity to a movement in the valuation of these investments the following stress testing parameters are applied:*

Stress test values applied	
Unlisted	15%
Listed	25%
Trading properties	20%
Investment properties	10%
Warrants, profit shares and other embedded derivatives	35%

Stress testing summary

Based on the information as at 31 March 2012, as reflected above we could have a R1.9 billion reversal in revenue (which assumes a year in which there is a 'severe stress scenario'). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Capital requirements

In terms of Basel II capital requirements, unlisted and listed equities within the banking book are represented under the category of 'equity risk' and investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk. Refer to page 86 for further detail.

Securitisation/credit investment and trading activities and exposures

The information below sets out the initiatives we have focused on over the past few years, albeit that some of these business lines have been curtailed given the current economic climate.

Our securitisation business was established over ten years ago. Over this time, we have arranged a number of corporate bond and commercial paper programmes and third party securitisations.

We have also assisted in the development of select securitisation platforms with external third party originating intermediaries. At present we have provided limited warehouse funding lines to these intermediaries.

Furthermore, we provide a standby liquidity facility to one conduit namely Grayston Conduit 1 (Pty) Limited Series 1 and Series 2. This facility, which totalled R1.7 billion as at 31 March 2012 (31 March 2011: R2.0 billion), has not been drawn on and is thus reflected as off-balance sheet contingent exposures in terms of our credit analysis (refer to page 61). The liquidity risk associated with these facilities is included in the stress testing for the group and is managed in accordance with our overall liquidity position.

We have also sought out select opportunities in the credit/debt markets and traded and invested in structured credit investments. These have largely been investments in rated instruments within the UK and Europe.

In addition, we have own originated, securitised assets in our private client business in South Africa. The primary motivations for the securitisation of assets within our Private Client division are to:

- Provide an alternative source of funding
- Provide a source of revenue
- Act as a mechanism to transfer risk
- Leverage returns through the retention of equity tranches in low default rate portfolios.

Total assets that have been originated and securitised by the Private Client division amount to R6.1 billion (March 2011: R6.3 billion) and include auto loans (R0.9 billion) and residential mortgages (R5.2 billion).These securitisation structures have all been rated by Moody's.

Accounting policies Audited

Refer to pages 123 to 134.

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/credit investment and trading activities reflect only those exposures to which we consider ourselves to be at risk notwithstanding accounting conventions. In addition, assets that have been securitised by our Private Client division are reflected as part of our core lending exposures and not our securitisation/credit investment and trading exposures as we believe this reflects the true nature and intent of these exposures and activities.

Nature of exposure/ activity	Exposure as at 31 March 2012 R'million	Exposure as at 31 March 2011 R'million	Credit analysis internal risk classification	Asset quality – relevant comments	Capital treatment
Structured credit investments*	2 798	3 094	Other debt securities and other loans and advances.		Risk-weighted or supervisory deductions against primary and secondary capital.
Rated	2 514	2 774			
Unrated	284	320			
Warehouse lines provided to own originated loans and advances to customers, and investment in third party intermediary originating platforms (mortgage and auto loans)	669	790	Other loans and advances.		Risk-weighted depending on rating of counterparty
Private Client division assets which have been securitised	6 126	6 343	Own originated loans and advances to customers securitised.	Analysed as part of the group's overall asset quality on core loans and advances as reflected on page 48	We apply securitisation rules: either risk-weighted or supervisory deductions against primary and secondary capital.
South Africa – liquidity facilities provided to third party corporate securitisation vehicles	1 660	2 041	Off-balance sheet credit exposure as these facilities have remained undrawn and reflect a contingent liability of the bank.		Unutilised facility that is risk-weighted.

***A further analysis of rated structured credit investments as at 31 March 2012**

R'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	–	35	–	–	35
European RMBS	206	947	355	502	215	117	–	2 342
European CMBS	–	96	–	16	–	–	–	112
South African RMBS	–	9	16	–	–	–	–	25
Total as at 31 March 2012	206	1 052	371	518	250	117	–	2 514
Total as at 31 March 2011	558	764	395	496	561	–	–	2 774

To manage, measure and mitigate market risk, we have independent market risk management teams in each geography where we assume market risk.

4

Traded market risk management

Traded market risk description Audited

Traded market risk is a measure of potential change in the value of a portfolio of instruments as a result of changes in the financial environment (resulting in changes in underlying market risk factors such as interest rates, equity markets, bond markets, commodity markets, exchange rates and volatilities) between now and a future point in time. The market risk management team identifies, quantifies and manages the effects of these potential changes in accordance with Basel II and policies determined by the board.

Within our trading activities, we act as principal with clients or the market. Market risk, therefore, exists where we have taken on principal positions, resulting from proprietary trading, market making, arbitrage, underwriting and investments in the commodity, foreign exchange, equity, capital and money markets. The focus of these businesses is primarily on supporting client activity. Our strategic intent is that proprietary trading should be limited and that trading should be conducted largely to facilitate clients in deal execution.

Traded market risk governance structure Audited

To manage, measure and mitigate market risk, we have independent market risk management teams in each geography where we assume market risk. Local limits have been set to keep potential losses within acceptable risk tolerance levels. A global market risk forum (mandated by the various boards of directors) manages the market risks in accordance with pre-approved principles and policies. Risk limits are reviewed and set at the global market risk forum and ratified at the ERRF in accordance with the risk appetite defined by the board. Limits are reviewed at least annually or in the event of a significant market event (e.g. 11 September 2001) or at the discretion of senior management.

Management and measurement of traded market risk

Market risk management teams review the market risks on our books. Detailed risk reports are produced daily for each trading desk.

These reports are distributed to management and the traders on the desk. Any unauthorised excesses are recorded and require a satisfactory explanation from the desk for the excess. The production of risk reports allows for the monitoring of every instrument traded against prescribed limits. New instruments or products are independently validated before trading can commence. Each traded instrument undergoes various stresses to assess potential losses. Each trading desk is monitored on an overall basis as an additional control. Trading limits are generally tiered with the most liquid and least 'risky' instruments being assigned the largest limits.

The market risk teams perform a profit attribution, where our daily traded income is attributed to the various underlying risk factors on a day-to-day basis. An understanding of the sources of profit and loss is essential to understanding the risks of the business.

Measurement techniques used to quantify market risk arising from our trading activities include sensitivity analysis, value at risk (VaR), stressed VaR, expected tail loss (ETL) and extreme value theory (EVT). Stress testing and scenario analysis are used to simulate extreme conditions to supplement these core measures.

VaR numbers are monitored daily at the 95%, 99% and 100% (maximum loss) confidence intervals, with limits set at the 95% confidence interval. ETLs are also monitored daily at the 95% and 99% levels. Scenario analysis considers the impact of a significant market event on our current trading portfolios. We consider the impact for the 10 days after the event, not merely the instantaneous shock to the markets. Included in our scenario analysis are for example the following; October 1987 (Black Monday), 11 September 2001 and the December Rand crisis in 2001. We also consider the impact of extreme yet plausible future economic events on the trading portfolio as well as possible worst case (not necessarily plausible) scenarios. Scenario analysis is done once a week and is included in the data presented to ERRF.

All VaR models, while forward-looking, are based on past events and depend on the quality of available market data. The accuracy of the VaR model as a predictor of potential loss is continuously monitored through back testing. This involves comparing the hypothetical (clean) trading revenues arising from the previous day's closing positions with the one-day VaR calculated for the previous day on these same positions. If the revenue is negative and exceeds the one-day VaR, a 'back testing breach' is considered to have occurred.

We have internal model approval and so trading capital is calculated as a function of the 99% 10-day VaR. Backtesting results and a detailed stress testing pack are submitted to the regulator on a monthly basis.

VaR 95% (one-day)

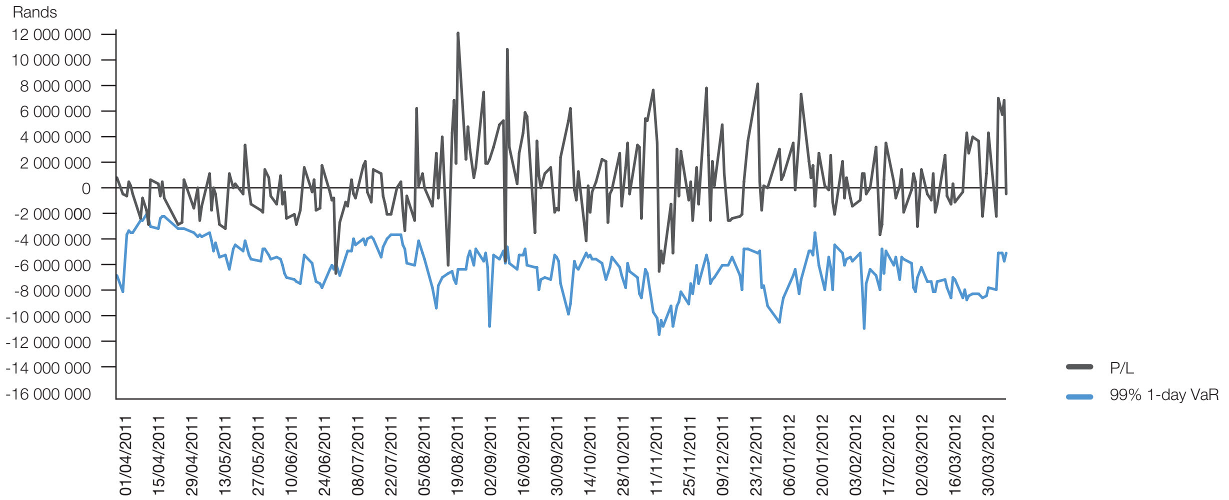
Audited R'million	Year end	Average	High	Low
31 March 2012				
Commodities	–	0.1	0.5	–
Equity derivatives	1.9	2.3	8.0	0.9
Foreign exchange	1.1	2.7	8.9	0.7
Interest rates	2.6	2.5	5.3	0.8
Consolidated*	4.2	4.8	9.6	2.7
31 March 2011				
Commodities	0.1	0.1	0.3	–
Equity derivatives	1.6	1.8	9.1	0.6
Foreign exchange	0.9	1.9	5.7	0.7
Interest rates	1.3	2.4	5.1	0.9
Consolidated*	3.8	4.0	10.0	2.0

* *The consolidated VaR for each desk at year end is lower than the sum of the individual VaRs. This arises from the consolidation offset between various asset classes (diversification).*

The graph below shows total daily VaR and profit and loss figures for our trading activities over the reporting period. The values shown are for the 99% one-day VaR, i.e. 99% of the time, the total trading activities will not lose more than the values depicted below. Based on this graph, we can gauge the accuracy of the VaR figures.

VaR for 2012 in the South African trading book was slightly higher than for 2011, though still lower than pre-crisis (2007) levels. Using hypothetical (clean) profit and loss data for backtesting resulted in four exceptions, which is more than the two to three exceptions that a 99% VaR implies. The exceptions were due to normal trading losses and most were due to trade in the FX market. Using actual profit and loss resulted in one exception which is lower than expected.

99% 1-day VaR backtesting



ETL 95% (one-day)

Audited R'million	31 March 2012	31 March 2011
Commodities	0.1	0.1
Equity derivatives	3.5	3.3
Foreign exchange	2.2	1.3
Interest rates	3.9	2.4
Consolidated*	5.8	5.8

* *The consolidated ETL for each desk is lower than the sum of the individual ETLs. This arises from the correlation offset between various asset classes.*

Stress testing

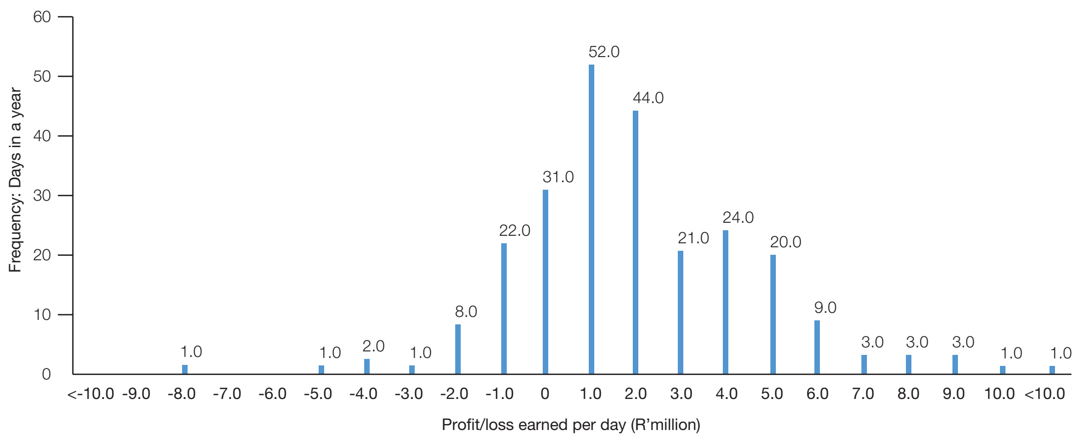
The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The method used is known as extreme value theory (EVT), the reported stress scenario below calculates the 99% EVT which is a 1-in-8 year possible loss event. These numbers do not assume normality but rather rely on fitting a distribution to the tails of the distribution.

Audited R'million	31 March 2012	31 March 2011
Commodities	0.1	0.3
Equity derivatives	16.3	24.3
Foreign exchange	17.2	5.6
Interest rates	24.3	10.0
Consolidated	20.3	13.6

Profit and loss histograms

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 181 days out of a total of 247 days in the trading business. The average daily trading revenue generated for the year ended 31 March 2012 was R1.5 million (2011: R1.2 million).

Profit and loss



Traded market risk mitigation

The market risk management team has a reporting line that is separate from the trading function, thereby ensuring independence. The risk management software runs independently from source trading systems and values all trades separately. The values from the two systems are reconciled daily. The values from the risk system are also used for profit attribution, another risk management tool.

Risk limits are set according to guidelines set out in our risk appetite policy and are calculated on a statistical and non-statistical basis. Statistical limits include VaR and ETL analyses at various confidence intervals. Historical VaR is used (over 500 days of unweighted data), where every 'risk factor' is exposed to daily moves over the past two years. With the equity markets for example, every share and index is considered independently as opposed to techniques where proxies are used.

Non-statistical limits include product limits, tenor, notional, liquidity, buckets and option sensitivities (greeks). When setting and reviewing these limits, current market conditions are taken into account. Bucket limits are set on time buckets, generally at three month intervals out to two years and then, on a less granular basis, out to 30 years.

Traded market risk year in review

Market conditions have not been conducive to client flow or proprietary trading. FX markets have been volatile with little or no clear trend as European conditions were the main driver of sentiment. South African equity markets took direction from the FX market which also influenced South African bond yields. Traders as the first line of defence have ensured that positions remain manageable in these conditions. VaR has remained on the low side but higher than last year.

Market risk – derivatives Audited

We enter into various derivatives contracts, both as principal for trading purposes and as customer for hedging foreign exchange, commodity, equity and interest rate exposures. These include financial futures, options, swaps and forward rate agreements. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range to take into account possible correlations.

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on page 160.

The notional principal indicates our activity in the derivatives market and represents the aggregate size of total outstanding contracts at year end. The fair value of a derivative financial instrument represents the present value of the positive or negative cash flows which would have occurred had we closed out the rights and obligations arising from that instrument in an orderly market transaction at year end. Both these amounts reflect only derivatives exposures and exclude the value of the physical financial instruments used to hedge these positions.

Balance sheet risk management

Balance sheet risk description

Balance sheet risk management encompasses the independent monitoring and prudential management of the financial risks relating to our asset and liability portfolios, comprising market liquidity, funding, concentration and non-trading interest rate risks on balance sheet.

Balance sheet risk governance structure and risk mitigation

Under delegated authority of the board, the group has established asset and liability management committees (ALCO's) within each core geography in which it operates, using regional expertise and local market access as appropriate. The ALCO's are mandated to ensure independent supervision of liquidity risk and non-trading interest rate risk.

The size, materiality, complexity, maturity and depth of the market as well as access to stable funds are all inputs considered when establishing the liquidity and non-trading interest rate risk appetite for each geographic region. Specific statutory requirements may further dictate special policies to be adopted in a region.

Detailed policies cover both domestic and foreign currency funds and set out sources and amounts of funds necessary to ensure the continuation of our operations without undue interruption. We aim to match-fund in currencies, other than the domestic currency, where it is practical and efficient to do so and hedge any residual currency exchange risk arising from deposit and loan banking activities.

The group's liquidity policy requires each geography to be self-funding so that there is no reliance on inter-group lines either from or to other group entities. Branches and subsidiaries have no responsibility for contributing to group liquidity.

The ALCO's typically comprise the managing director, the head of risk, the head of Corporate Client, economists, divisional heads, the balance sheet risk management team, the treasurer, Private Client representatives and any appropriate co-opted personnel. The ALCO's meet on a monthly basis to discuss the balance sheet, market conditions and decide on strategies to mitigate any undesirable liquidity and interest rate risk. The group's central treasury function is mandated to manage the liquidity mismatch and non-trading interest rate risk arising from our asset

Non-trading interest rate risk in the banking book is an inherent consequence of conducting banking activities, and arises from the provision of retail and wholesale (non-trading) banking products and services.

and liability portfolios on a day-to-day basis. The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the board approved risk appetite policy. Most non-trading interest rate risk and asset funding requirements are transferred from the originating business to the treasury function.

The group's central treasury function directs pricing for all deposit products (including deposit products offered to the private clients), establishes and maintains access to stable wholesale funds with the appropriate tenor and pricing characteristics, and manages liquid securities and collateral, thus providing for a controlled and flexible response to volatile market conditions. The central treasury function is the sole interface to the wholesale market for both cash and derivative transactions.

We maintain an internal funds transfer pricing system based on prevailing market rates. Our funds transfer pricing system charges the businesses the price of short-term and long-term liquidity. The costs and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management.

The balance sheet risk management team, based within group Risk Management, independently identifies, quantifies and monitors risks, providing daily independent governance and oversight of the central treasury activities and the execution of the bank's policy, continuously assessing the risks whilst taking changes in market conditions into account. In carrying out its duties the balance sheet risk management team monitors historical liquidity trends, tracks prospective on- and off-balance sheet liquidity obligations. It identifies and measures internal and external liquidity warning signals which permit early detection of liquidity issues through daily liquidity reporting, and performs scenario analysis which quantifies our exposure, thus providing a comprehensive and consistent governance framework. The balance sheet risk team further pro-actively identifies proposed best risk practice and measures adopted in the broader market and implements the changes where relevant.

The scenario modelling and daily liquidity stress tests are designed to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal, company-specific and market-driven stress scenarios. These scenarios consider the rate and timing of deposit withdrawals, and draw-downs on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The parameters used in the scenarios are regularly reviewed, taking into account changes in the business environments and input from business units. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board approved risk appetite.

The integrated balance sheet risk management framework is based on similar methodologies as those contemplated under the BCBS 'liquidity risk measurement standards and monitoring' and is compliant with the 'principles of sound liquidity risk management and supervision' as well as 'guidelines for the management of interest rate risk on the banking book'.

There is a regular internal audit of the balance sheet risk management function, the frequency of which is determined by the independent audit committee.

The group operates an industry recognised third party system to identify, measure, manage and monitor liquidity risk on both a current and forward-looking basis. The system is reconciled to the bank's general ledger and audited by internal audit thereby ensuring integrity of the process.

Daily, weekly and monthly reports are independently produced showing bank activity, exposures and key measures against thresholds and limits and are distributed to management, ALCO, the central treasury function, ERRF, BRCC and the board.

Statutory reports are submitted to the relevant regulators in each jurisdiction within which we operate.

Non-trading interest rate risk description Audited

Non-trading interest rate risk, otherwise known as interest rate risk in the banking book, is the impact on net interest earnings and sensitivity to economic value, as a result of unexpected adverse movements in interest rates arising from the execution of our core business strategies and the delivery of products and services to our customers.

Sources of interest rate risk include:

- Repricing risk: Arises from the timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive portfolios
- Yield curve risk: Repricing mismatches also expose the bank to changes in the slope and shape of the yield curve
- Basis risk: Arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics
- Optionality: We are not materially exposed to optionality risk, as contract breakage penalties on fixed-rate advances specifically cover this risk, while prepayment optionality is restricted to variable rate contracts and has no impact on interest rate risk.

These affect the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive asset and liability portfolios, which has a direct effect on future net interest income and the economic value of equity.

Management and measurement of non-trading interest rate risk

Non-trading interest rate risk in the banking book is an inherent consequence of conducting banking activities, and arises from the provision of retail and wholesale (non-trading) banking products and services. The group considers the management of banking margin of vital importance, and our core non-trading interest rate risk philosophy is reflected in day-to-day practices which encompass the following:

- The group complies with the BCBS framework for assessing banking book (non-trading) interest rate risk
- The management of interest rate risk in the banking book is centralised within Central Treasury and Central Treasury is mandated by the board to actively manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios
- The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the Risk Appetite Policy
- Most non-trading interest rate risk and asset funding requirements are transferred from the originating business to Central Treasury
- The policy dictates that long-term non-trading interest rate risk is materially eliminated. The bank swaps its fixed deposits and loans with maturities greater than one year to three-month risk in the wholesale market via interest rate swaps
- Central Treasury directs pricing for all deposit products (including deposit products offered to the private clients), in so doing we manage access funding at cost-effective levels
- The bank maintains an internal funds transfer pricing system based on prevailing market rates which charges out the price of long- and short-term funding to consumers of liquidity and provides long-term stable funding for our asset creation activity
- Central Treasury is the primary interface to the wholesale market
- Daily management of interest rate risk by Central Treasury, subject to independent ALCO review
- Technical interest rate analysis and economic review of fundamental developments by geography and global trends
- Independent measurement and analysis of both traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors, detailing the sources of interest rate exposure.

Non-trading interest rate risk is measured and managed from both earnings and economic value perspectives, with the aim to protect and enhance net interest income in accordance with the board approved risk management framework and risk appetite. The standard tools that are used to measure non-trading interest rate risk as defined above are:

- the repricing gap;
- net interest income sensitivity (also referred to as earnings risk); and
- economic value (or NPV) sensitivity.

This is consistent with the standardised interest rate measurement recommended by the Basel II framework for assessing banking book (non-trading) interest rate risk.

Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon. The aim is to protect and enhance net interest income and economic value in accordance with the board approved risk appetite. The repricing gap provides a basic representation of the balance sheet, with the sensitivity of earnings to changes in interest rates calculated off the repricing gap. This allows for the detection of interest rate risk by concentration of repricing buckets. Net interest income sensitivity measures the change in accruals expected over the specified horizon in response to a shift in the yield curve. Economic value sensitivity and stress testing to macro-economic movement or changes measures the interest risk implicit change in net worth as a result of a change in interest rates on the current values of financial assets and liabilities.

Technical interest rate analysis and economic review of fundamental developments are used to estimate a set of forward-looking interest rate scenarios incorporating movements in the yield curve level and shape, after taking global trends into account.

This combination of measures provides senior management (and the ALCOs) with an assessment of the financial impact of identified rate changes on potential future net interest income and sensitivity to changes in economic value.

Our Risk Appetite Policy requires that interest rate risk arising from fixed interest loans risk is transferred from the originating business to the central treasury function by match-funding. In turn, Central Treasury hedges all fixed rate assets with a term of more than one year on a deal-by-deal basis to within three-months repricing with the use of variable vs. fixed interest rate swaps. The market for these vanilla swaps is deep, with the result that such hedging is efficient. Likewise, Central Treasury also hedges all fixed rate deposits with a term of more than one year to within three-months repricing. These derivative hedging trades are executed with the bank's interest rate trading desk. Limits exist to ensure there is no undesired risk retained within any business or product area.

Operationally, non-trading interest rate risk is transferred within predefined guidelines from the originating business to the central treasury function and aggregated or netted. The Central Treasury then implements appropriate balance sheet strategies to achieve a cost-effective source of funding and mitigates any residual undesirable risk where possible, by changing the duration of the banking group's discretionary liquid asset portfolio, or through derivative transactions which transfer the risk into the trading books within the Corporate Client division to be traded with the external market. The Central Treasury mandate allows for a tactical response to market opportunities which may arise during changing interest rate cycles. Any resultant interest rate position is managed under the Market Risk Limits.

Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

R'million	Not >3 months	>3 months but <6 months	>6 months but <1 year	>1 year but <5 years	>5 years	Non-rate	Total non-trading
Cash and short-term funds – banks	24 770	–	–	–	–	4 724	29 494
Cash and short-term funds – non-banks	7 885	–	–	–	–	–	7 885
Investment/trading assets and statutory liquids**	28 478	11 949	6 449	8 766	8 971	15 085	79 698
Securitised assets	7 146	–	–	–	–	692	7 838
Advances	105 142	680	2 348	9 399	4 765	956	123 290
Other assets	18	–	–	–	194	4 766	4 978
Assets	173 439	12 629	8 797	18 165	13 930	26 223	253 183
Deposits – banks	(12 771)	(894)	(20)	(118)	–	(130)	(13 933)
Deposits – non-banks	(151 544)	(10 555)	(8 508)	(3 431)	(609)	(1 004)	(175 651)
Negotiable paper	(3 483)	(352)	(448)	(32)	(74)	–	(4 389)
Securitised liabilities	(5 887)	–	(218)	–	–	(643)	(6 748)
Investment/trading liabilities	(7 157)	(1)	(34)	(2 906)	(4 436)	(4 474)	(19 008)
Subordinated liabilities	(4 489)	–	(2 062)	(125)	(2 033)	(919)	(9 628)
Other liabilities	(123)	–	–	–	–	(5 802)	(5 925)
Liabilities	(185 454)	(11 802)	(11 290)	(6 612)	(7 152)	(12 972)	(235 282)
Intercompany loans	5 979	(242)	(289)	(557)	(90)	(190)	4 611
Shareholders' funds	(3 170)	(43)	–	–	(871)	(18 055)	(22 139)
Balance sheet	(9 206)	542	(2 782)	10 996	5 817	(4 994)	373
Off-balance sheet	25 742	(5 102)	(2 935)	(12 441)	(5 637)	–	(373)
Repricing gap	16 536	(4 560)	(5 717)	(1 445)	180	(4 994)	–
Cumulative repricing gap	16 536	11 976	6 259	4 814	4 994	–	–

Economic value sensitivity as at 31 March 2012

For the reasons outlined above, our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The table below reflects our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. The numbers represent the change to the value of the mark-to-market portfolios should such a hypothetical scenario arise. This sensitivity effect does not have a significant direct impact on our equity.

	Sensitivity to the following interest rates (expressed in original currencies)					
’million	ZAR	GBP	USD	EUR	AUD	All (ZAR)
200bp down	(23.1)	6.3	7.5	(2.8)	1.8	97.0
200bp up	15.7	(6.5)	(6.2)	6.5	(1.4)	(56.0)

Liquidity risk

Liquidity risk description Audited

Liquidity risk is the risk that we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due, without incurring unacceptable losses. This includes repaying depositors or maturing wholesale debt. This risk is inherent in all banking operations and can be impacted by a range of institution-specific and marketwide events.

Liquidity risk is further broken down into:

- Funding liquidity: which relates to the risk that the bank will be unable to meet current and/or future cash flow or collateral requirements in the normal course of business, without adversely affecting its financial position or its reputation
- Market liquidity: which relates to the risk that the bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

Sources of liquidity risk include:

- unforeseen withdrawals of deposits;
- restricted access to new funding with appropriate maturity and interest rate characteristics;
- inability to liquidate a marketable asset in a timely manner with minimal risk of capital loss;
- unpredicted customer non-payment of loan obligations; and
- a sudden increased demand for loans in the absence of corresponding funding inflows of appropriate maturity.

Management and measurement of liquidity risk

Cohesive liquidity management is vital for protecting our depositors, preserving market confidence, safeguarding our reputation and ensuring sustainable growth with established funding sources. Through active liquidity management, we seek to preserve stable, reliable and cost effective sources of funding. Inadequate liquidity can bring about the untimely demise of any financial institution. As such, the group considers ongoing access to appropriate liquidity for all its operations to be of paramount importance, and our core liquidity philosophy is reflected in day-to-day practices which encompass the following:

- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely SARB and the Bank of Mauritius
- The group complies with the BCBS Principles for Sound Liquidity Risk Management and Supervision
- The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and monitoring and the enhanced regulatory framework to be established, to be implemented in 2015 and 2018
- The risk appetite is clearly defined by the board and each geographic entity must have its own board approved policies with respect to liquidity risk management
- Each geographic entity must be self sufficient from a funding and liquidity standpoint so that there is no reliance on intergroup lines either from or to other group entities
- Branches and subsidiaries have no responsibility for contributing to group liquidity
- We maintain a liquidity buffer in the form of unencumbered, cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows

Our liquidity risk management reflects evolving best practice standards in light of the challenging environment.

4

Cash and near cash

up 31% to

R69 077 million

- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a satisfactory overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cash flow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board approved risk appetite
- Our liquidity risk parameters reflect a collection of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis
- The balance sheet risk management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators
- The group centrally manages access to funds in both domestic and offshore markets through the Central Treasury divisions
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- Each major banking entity maintains an internal funds transfer pricing system based on prevailing market rates. The central treasury function charges out the price of long- and short-term funding to internal consumers of liquidity, which ensures that the costs, benefits and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business
- The group maintains adequate contingency funding plans.

Our liquidity risk management reflects evolving best practice standards in light of the challenging environment. Liquidity risk management encompasses the ongoing management of structural, tactical day-to-day and contingent stress liquidity.

Management uses assumptions-based planning and scenario modelling that considers market conditions, prevailing interest rates, and projected balance sheet growth, to estimate future funding and liquidity needs whilst taking the desired nature and profile of liabilities into account. These metrics are used to develop our funding strategy and measure and manage the execution thereof. The funding plan details the proportion of our external assets which are funded by customer liabilities, unsecured wholesale debt, equity and loan capital, thus maintaining an appropriate mix of structural and term funding, resulting in strong balance sheet liquidity ratios. This ensures the smooth management of the day-to-day liquidity position within conservative parameters and further validates that, in the event of either a firm-specific or general market contingent event, we are able to generate sufficient liquidity to withstand short-term liquidity stress or market disruptions.

We maintain a funding structure with stable private client deposits and long-term wholesale funding well in excess of illiquid assets. We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. This validates our ability to generate funding from a broad range of sources in a variety of geographic locations, which enhances financial flexibility and limits dependence on any one source so as to ensure a satisfactory overall funding mix.

We acknowledge the importance of our private client base as the principal source of stable and well diversified funding for our private client risk assets. We continue to develop products to attract and service the investment needs of our private client base. Although the contractual repayments of many private client customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. Our Private Client division continued to successfully raise private client deposits despite competitive pressures with total deposits increasing by 11.1% from 1 April 2011 to R62.3 billion at 31 March 2012. We also have a number of innovative retail deposit initiatives within our Corporate Client division and these continued to experience strong inflows during the financial year. On average our fixed and notice customer deposits have amounted to approximately 70% of total deposits since April 2006, thereby displaying a strong 'stickiness' and willingness to reinvest by our retail customers.

Entities within the group actively participate in global financial markets and our relationship is continuously enhanced through regular investor presentations internationally. Entities are only allowed to have funding exposure to wholesale markets where they can demonstrate that the market is sufficiently deep and liquid, and then only relative to the size and complexity of their business. We have instituted various offshore syndicated loan programmes to broaden and diversify term-funding in supplementary markets and currencies, enhancing the proven capacity to borrow in the money markets. The group remains committed to increasing its core deposits and accessing domestic and foreign corporate clients when appropriate. Decisions on the timing and tenor of accessing these markets are based on relative costs, general market conditions, prospective views of balance sheet growth and a targeted liquidity profile.

The group's ability to access funding at cost-effective levels is influenced by maintaining or improving the entity's credit rating. A reduction in these ratings could have an adverse effect on the group's funding costs, and access to wholesale term funding. Credit ratings are dependent on multiple factors including business model, strategy, capital adequacy levels, quality of earnings, risk appetite and exposure, and control framework.

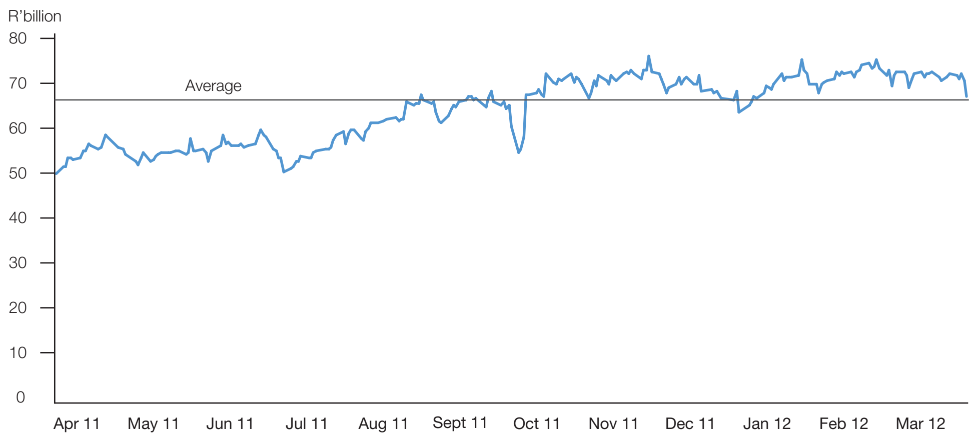
We engage in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a relatively modest proportion of our current funding profile, but provides additional flexibility and source of term liquidity. These entities form part of the consolidated group balance sheet as reported. Our funding and liquidity capacity is not reliant on these entities to any material extent and we do not rely on these vehicles for funding in the normal course of business.

As mentioned above, we hold a liquidity buffer in the form of unencumbered readily available, high quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central bank, and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows. Investec remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short-term interbank borrowings. These portfolios are managed within limits and, apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy. We do not rely on interbank deposits to fund term lending.

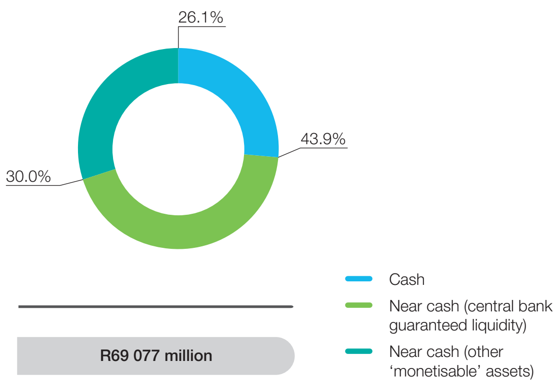
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

Each banking entity within the group maintains a contingency funding plan to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The liquidity contingency plans outline extensive early warning indicators and clear and decisive crisis response strategies. Early warning indicators span bank specific and systemic crises. Rapid response strategies address action plans, roles and responsibilities, composition of decision making bodies involved in liquidity crisis management, internal and external communications including public relations, sources of liquidity, avenues available to access additional liquidity, as well as supplementary information requirements. This plan helps to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse bank specific events, while minimising detrimental long-term implications for the business.

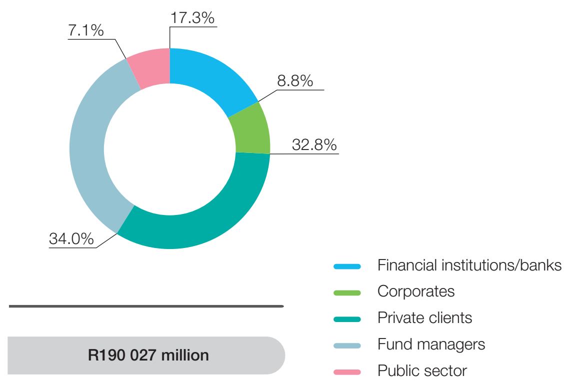
Investec Limited cash and near cash trend



An analysis of cash and near cash



Bank and non-bank depositor concentration by type



Liquidity mismatch

The tables that follow show our contractual liquidity mismatch.

The tables may not agree directly to the balances disclosed in the balance sheet since the tables may incorporate cash flows on a contractual, undiscounted basis based on the earliest date on which the group can be required to pay.

Our liquidity and funding profile reflects our strategy, risk appetite and business activities. The tables reflect that loans and advances to customers are largely financed by stable funding sources.

With respect to the contractual liquidity mismatch:

- No assumptions are made except as mentioned below, and we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal
- As an integral part of the broader liquidity generation strategy, we maintain a liquidity buffer in the form of unencumbered cash, government, or bank paper (typically eligible for repurchase with the central bank), and near cash as a buffer against both expected and unexpected cash flows. The actual contractual profile of this asset class is of little consequence, as practically Investec would meet any unexpected net cash outflows by repro'ing or selling these securities, we have:
  - Set the time horizon to 'on demand' to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank
  - Set the time horizon to one month to monetise our cash and near cash portfolio of 'available-for-sale' discretionary treasury assets, where there are deep secondary markets for this elective asset class
  - Reported the 'contractual' profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

- The new funding we would require under normal business circumstances is shown in the 'behavioural mismatch'. Many retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the group's operations and liquidity needs because of the broad base of customers. To this end, behavioural profiling is applied to liabilities with an indeterminable maturity, as the contractual repayments of many customer accounts are on demand or at short notice but expected cash flows vary significantly from contractual maturity. An internal analysis model is used, based on statistical research of the historical series of products. This is used to identify significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour. In addition, re-investment behaviour, with profile and attrition based on history, is applied to term deposits in the normal course of business.

Contractual liquidity as at 31 March 2012

R'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	>5 years	Total
Cash and short-term funds – banks*	23 606	181	3 949	111	993	974	–	29 814
Cash and short-term funds – non-banks	7 885	–	–	–	–	–	–	7 885
Investment/trading assets and statutory liquids**	25 557	23 702	1 095	2 209	1 298	27 001	16 340	97 202
Securitised assets	976	31	99	167	281	1 607	4 677	7 838
Advances	3 772	5 286	9 229	9 005	13 954	51 558	30 486	123 290
Other assets	862	–	–	5	–	395	3 881	5 143
Assets	62 658	29 200	14 372	11 497	16 526	81 535	55 384	271 172
Deposits – banks	(2 315)	(1 089)	(926)	(293)	(93)	(9 217)	–	(13 933)
Deposits – non-banks	(60 282)^	(23 980)	(36 298)	(17 898)	(18 197)	(18 498)	(941)	(176 094)
Negotiable paper	(200)	(714)	(350)	(906)	(1 532)	(87)	(600)	(4 389)
Securitised liabilities	(32)	(842)	(195)	–	(1 130)	(4 332)	(217)	(6 748)
Investment/trading liabilities	(517)	(10 455)	(791)	(848)	(475)	(14 272)	(4 662)	(32 020)
Subordinated liabilities	–	(1 655)	–	–	(2 856)	(425)	(4 692)	(9 628)
Other liabilities	–	(618)	(236)	(271)	(671)	(296)	(4 026)	(6 118)
Liabilities	(63 346)	(39 353)	(38 796)	(20 216)	(24 954)	(47 127)	(15 138)	(248 930)
Shareholders' funds	–	–	–	–	–	–	(22 242)	(22 242)
Contractual liquidity gap	(688)	(10 153)	(24 424)	(8 719)	(8 428)	34 408	18 004	–
Cumulative liquidity gap	(688)	(10 841)	(35 265)	(43 984)	(52 412)	(18 004)	–	–

Note: contractual liquidity adjustments (as discussed on page 72)

R'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	>5 years	Total
*Cash and short-term funds – banks	18 896	181	3 949	111	993	974	4 710	29 814
**Investment/trading assets and statutory liquids	291	12 781	9 190	15 622	10 624	28 580	20 114	97 202

Behavioural liquidity (as discussed on page 72)

R'million	Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	>5 years	Total
Behavioural liquidity gap	33 488	(3 444)	4 665	4 164	3 022	(76 269)	34 374	–
Cumulative	33 488	30 044	34 709	38 873	41 895	(34 374)	–	–

^ *Includes call deposits of R56.6 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Balance sheet risk year in review

The financial year was characterised by no official change in interest rates, despite the fact that inflation exceeded the target at the end of the third quarter. However, the yield curve fluctuated markedly around the short end anchor point as firstly fears of rates cuts surfaced in the first half of the year and then speculation on a possible rate hike surfaced in the latter part of the year. The monetary authorities indicated that inflation would remain out of the target range for a significant period, but concern over global weakness and possible recession on the back of the European bank and credit crisis stayed their hand. 2011 saw borrowing costs for debt stressed Euro sovereigns spiral to new highs in November on the spike in risk aversion, driving global money market rates up and the Rand weaker. The Rand was also very volatile, ending the year weaker than it started, although it depreciated by double this to R8.57:USD (R13.31:GBP) in November.

The high level of liquidity in global markets on the back of Central Banks' action, including the quantitative easing in the UK and the ECB provision of unlimited three year loans, has driven demand for both SA's bonds and emerging market assets in general, with the result that the Rand has ended the financial year close to fair value (currently estimated around R7.67:USD).

Investec continued to build its cash resources over the course of the year as general fund raising activities more than exceeded a slight uptick in lending activities.

One over-riding constant though was a continual upward pressure on longer-term spreads to the three-month JIBAR benchmark as banks competed to lengthen their deposit books in the face of a marked drop in the appetite for longer duration assets from Money Market funds in particular.

Investec continued to build its cash resources over the course of the year as general fund raising activities more than exceeded a slight uptick in lending activities. The bank continued to benefit from a growing retail franchise with total customer deposits increasing by 14% from 1 April 2011 to R176.1 billion at 31 March 2012. Cash and near cash balances increased by 31.3% from 1 April 2011 to R69.1 billion at 31 March 2012. Our liquidity was further boosted by several successful medium-term senior and subordinated notes issues:

- We issued 10 year subordinated debt totalling R3.0 billion over the course of the year
- We issued medium-term 3.5 and 10 year notes totalling R2.8 billion over the course of the year
- We raised 1.2 billion USD equivalent multicurrency syndicated loan for 24 months to boost our foreign currency cash reserves.

Our major focus along with other major South African banks has been a desire to reshape the nature of our deposit books towards more retail and longer-term funds in order to meet the new Basel III liquidity guidelines that will be implemented in 2015. We anticipate no problems in meeting the new regulations in time; however, the impact on overall margins will be negative in the short to medium term.

Regulatory considerations – balance sheet risk

Regulators are proposing to both strengthen and harmonise global liquidity standards and to ensure a strong financial sector and global economy. We believe that we are well positioned for the proposed regulatory reform as we have reduced risk and maintained strong capital, funding and liquidity.

In December 2010, BCBS updated its guidelines for liquidity risk measurement standards and monitoring, which supplemented the 2008 Principles of Sound Liquidity Risk Management and Supervision.

The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and monitoring and the enhanced regulatory framework to be established. Investec has been proactively reporting on these ratios internally according to the emerging Basel definitions since February 2010. In some jurisdictions Investec already exceeds minimum requirements of these standards, whilst in other geographies we have commenced with strategies to reshape our liquidity and funding profile where necessary, as we move towards the compliance timeline.

The strategic impact of Basel III internationally is significant, and has the potential to change the business model of non-compliant banks whilst the regulatory developments could result in additional costs.

We have been an active participant in regulatory and industry forums to promote best practice standards on liquidity management.

Two key liquidity measures as defined are:

Liquidity coverage ratio (LCR)

This ratio is designed to promote short-term resilience of one month liquidity profile, by ensuring that banks have sufficient high quality liquid assets to meet potential outflows in a stressed environment.

Net stable funding ratio (NSFR)

This ratio is designed to capture structural issues over a longer time horizon by requiring banks to have a sustainable maturity structure of assets and liabilities.

The BCBS guidelines were followed by a quantitative impact study (QIS) in an attempt to assess the impact of the new proposals on banks and the broader economy. Investec participated in the QIS study and believes it will be adequately capitalised to meet the new requirements.

Both the LCR and the NSFR will be subject to an observation period and will include a review clause to address any unintended consequences. Banks are expected to commence reporting on the ratios in 2012 and full implementation and compliance of the LCR and NSFR in 2015 and 2018 respectively.

South Africa is also committed to implementing the BCBS guidelines for liquidity risk, by the due dates of 2015 and 2018.

Investec is involved in the process in the following ways:

- Collectively via the Banking Association of South Africa and their task groups
- Direct bilateral consultation with SARB and SARB task teams
- As part of the Quantitative Impact Study by BCBS via SARB
- As part of National Treasury Structural Funding and Liquidity Risk task team.

The banking industry in South Africa will find it difficult to meet the new ratios (LCR and NSFR) as a result of the shortcomings and constraints in the South African environment. The banking sector in South Africa is characterised by certain structural features such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services. The proposed liquidity measures have the potential to impact growth and job creation in the economy. In recognition thereof, the Finance Minister instituted a Structural Funding and Liquidity task team to investigate the constraints in the South African market and make recommendations to address these limitations.

The SARB issued the first draft for the proposed changes to implement the new liquidity framework in early April 2012 and it is expected to be finalised in early 2013.

The regulator has issued Guidance note 5 – 2012, following the BCBS guideline for 'Treatment of jurisdictions with insufficient liquid assets', which makes provisions for 'contractual committed liquidity facilities from the relevant central bank, with a fee' where a jurisdiction has an insufficient supply of Level 1 assets in their domestic currency to meet the aggregate demand of banks with significant exposures in this currency.

Operational risk

Operational risk is defined as the risk of loss or earnings volatility arising from inadequate or failed internal processes, people and systems, or from external events. Loss is not limited to financial consequences, but may affect business objectives, customer service and regulatory responsibilities.

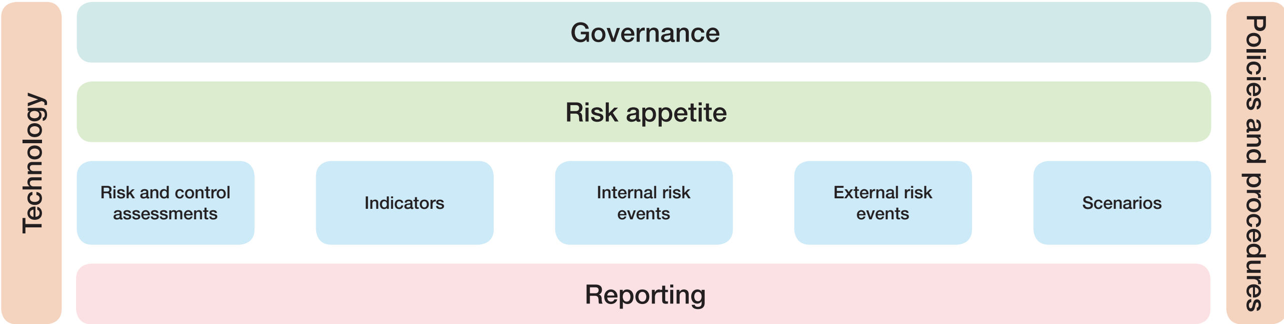
We recognise that there is a significant risk inherent in the operations of a bank. We therefore endeavour to manage exposures and events, through the promotion of sound operational risk management practices, to an acceptable level. This is done taking the cost and benefits of mitigation into account.

We have adopted the standardised approach to calculate the regulatory operational risk capital requirement.

Operational risk is defined as the risk of loss or earnings volatility arising from inadequate or failed internal processes, people and systems, or from external events.

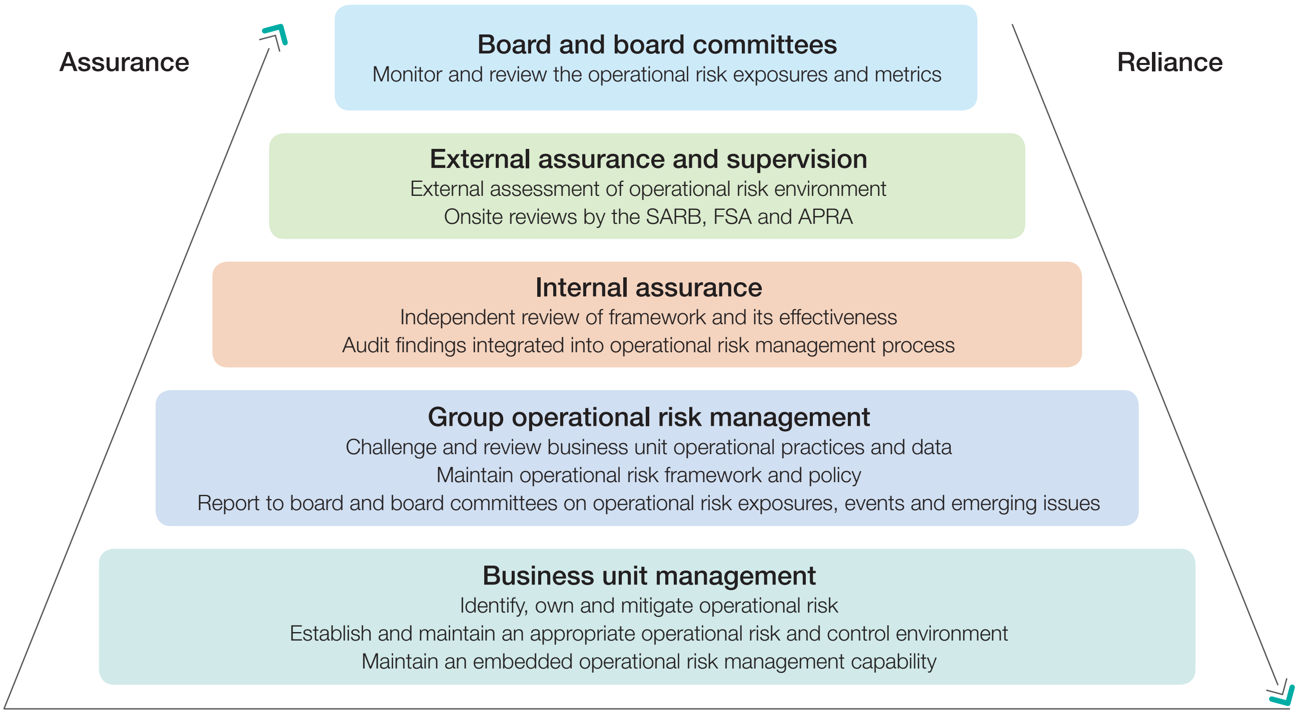
Operational risk management framework

The objective of the framework is to set out a structured and efficient approach to manage operational risk and thereby improve business performance and comply with regulatory requirements.



Governance

The governance structure adopted by the operational risk management function operates in terms of a levels of defence model and provides combined assurance as described below:



At a group level policies and practices have been established by group Operational Risk Management to ensure that operational risk is managed in an appropriate and consistent manner.

Operational risk at the business unit level is managed by embedded risk managers (ERMs). Significant risk exposures and events are subject to action and escalation by ERMs in terms of the Operational Risk Appetite policy. This policy sets out the operational risk exposure that the group is willing to accept or retain.

Operational risk practices

The following practices are key to the management of operational risk as described below:

Practice	Activity
Risk and control assessment	• Qualitative assessment to identify key risks and controls • Allows for improvement of ineffective controls and risk management decisions through an enhanced understanding of the operational risk profile.
Risk indicators	• Monitoring of risk exposures • Assists in predictive capability through provision of early warning signs.
Internal risk events	• An incident, event or loss resulting from failed processes, people and systems or external events • A causal analysis is performed to link the event and consequence to risks and controls • Enables business to identify and correct control weakness.
External risk events	• Collected from selected public sources and analysed in a similar manner to internal risk events • Analysis allows for improvement of the control environment through the awareness of possible risks.
Scenarios	• Extreme, unexpected but plausible loss events not yet experienced for which the financial and non-financial impacts are evaluated • Used to measure the exposure arising from key risks, which is considered in determining internal operational risk capital requirements.
Reporting	• Group operational risk management reports to the board, BRCC and audit committee on a regular basis • Purpose is to ensure that risk exposures are understood at all levels throughout the group and key risks are appropriately escalated and managed on a timely basis.
Technology	• An infrastructure supports practices through capture, assessment and linking of operational risks and related data.

The practices which form part of the operational risk management framework, as described above, are monitored on an ongoing basis by group Operational Risk Management and the ERMs. These components are integrated to inform each other, enabling more efficient monitoring of operational risk data integrity, compliance with the policies and practices, and the operational risk profile across the group.

Key operational risk considerations

The following risks, which may result in reduction of earnings and/or loss of value should they materialise, are a key focus of the group.

Financial crime

Financial crime is the risk of loss due to, but not limited to, fraud, forgery, theft and corruption. It also includes the execution of trades which have not been appropriately authorised. It is identified, assessed, monitored and measured to ensure that the risk of loss is understood, managed and mitigated.

Financial crime is mitigated as follows:

- Ensuring that appropriate action is taken in respect of fraudulent activities
- Identifying criminal acts against the group and investigating and recovering losses
- Engaging with external specialists and industry forums.

Senior management is responsible for implementing appropriate financial crime risk mitigation and control practices. Group forensic risk management provides and maintains the framework, policies, practices and monitoring to promote sound risk management practices and provide investigative support.

Regulatory and compliance risk

Regulatory and compliance risk relates to the failure to comply with applicable laws, regulation or codes.

It has become increasingly significant due to the extent and complexity of laws and regulations with which the group is expected to comply. Group Compliance and group Legal assist in the management of this risk through the identification and adherence to legal and regulatory requirements to which the group is or will become subject.

Information security risk

Information security continues to remain a key area of focus. The group ensures that information security risk is appropriately mitigated within a rapidly changing technology and threat landscape. ERMs focus on ensuring the confidentiality, integrity and availability of information.

Process management risk

This risk of loss arises due to failed process management. Losses in this area are continually mitigated through careful consideration of control effectiveness.

Developments

During the year under review the operational risk management function revisited the operational risk governance structure to ensure alignment with sound practices, other risk disciplines and changes within the group structure. Output from other assurance activities has also been integrated to enhance the operational risk management process.

Enhancement of the risk and control environment remains a key area of focus through the constant development of the operational risk management framework as practices are advanced. This is also achieved through an increase in industry interaction, which creates awareness of best practice.

The group also monitors regulatory developments and actively engages with regulators.

Insurance

The group maintains adequate insurance to cover key insurable risks. The insurance process and requirements are managed by the group insurance risk manager. Regular interaction between group operational risk management ensures that there is an exchange of information in order to enhance the mitigation of operational risks.

Business continuity management

The group maintains a global business continuity management capability which incorporates an appropriate level of resilience into the bank's operations to minimise the risk of severe operational disruptions occurring.

In the event of a major disruption, an incident management framework will be used to manage the disruption. Continuity will be achieved through a flexible and adaptable response, which includes relocating impacted business to the designated recovery site(s). Dedicated resources ensure all governance processes are in place with business and technology teams responsible for activating and managing the recovery process.

The group conducts regular exercises and testing of recovery procedures to ensure that its recovery capability remains appropriate.

Reputational risk

Reputational risk is damage to our reputation, name or brand. Reputational risk arises as a result of other risks manifesting and not being mitigated.

We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced. We also subscribe to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles.

We are aware of the impact of practices that may result in a breakdown of trust and confidence in the organisation. The group's policies and practices are regularly reinforced through transparent communication, accurate reporting, continuous group culture and values assessment, internal audit and regulatory compliance review, and risk management practices.

Legal risk management

Legal risk is the risk of loss resulting from any of our rights not being fully enforceable or from our obligations not being properly performed. This includes our rights and obligations under contracts entered into with counterparties. Such risk is especially applicable where the counterparty defaults and the relevant documentation may not give rise to the rights and remedies anticipated when the transaction was entered.

Our objective is to identify, manage, monitor and mitigate legal risks throughout the group. We seek to actively mitigate these risks by identifying them, setting minimum standards for their management and allocating clear responsibility for such management to legal risk managers, as well as ensuring compliance through proactive monitoring.

The scope of our activities is continuously reviewed and includes the following areas:

- Relationship contracts
- Legislation/governance
- Litigation
- Corporate events
- Incident or crisis management
- Ongoing quality control.

The legal risk policy is implemented through:

- Identification and ongoing review of areas where legal risk is found to be present
- Allocation of responsibility for the development of procedures for management and mitigation of these risks
- Installation of appropriate segregation of duties, so that legal documentation is reviewed and executed with the appropriate level of independence from the persons involved in proposing or promoting the transaction
- Ongoing examination of the inter-relationship between legal risk and other areas of risk management, so as to ensure that there are no 'gaps' in the risk management process
- Establishing minimum standards for mitigating and controlling each risk, including the nature and extent of work to be undertaken by our internal and external legal resources
- Establishing procedures to monitor compliance, taking into account the required minimum standards
- Establishing legal risk forums, bringing together the various legal risk managers, to ensure we keep abreast of developments and changes in the nature and extent of our activities, and to benchmark our processes against best practice.

Overall responsibility for this policy rests with the board. The board delegates responsibility for implementation of the policy to the global head of Legal Risk. The global head assigns responsibility for controlling these risks to the managers of appropriate departments and focused units throughout the group.

A legal risk forum is constituted in each significant legal entity within the group. Each forum meets at least half-yearly and more frequently where business needs dictate, and is chaired by the global head of Legal Risk or an appointed deputy. Minutes of the meetings are circulated to the chief executive officer of each legal entity.

Capital management and allocation

Although Investec plc (and its subsidiaries) and Investec Limited (and its subsidiaries) are managed independently, the governance of capital management is consistent across the two groups. The DLC structure requires the two groups to independently manage each group's balance sheet and hence capital is managed on this basis. This approach is overseen by the BRCC (via the Investec DLC capital committee) which is a board sub-committee with ultimate responsibility for the capital sufficiency of both Investec plc and Investec Limited.

The legal and regulatory treatment of capital is independent of existing shareholder arrangements that are in place to ensure that shareholders have common economic and voting interests as if Investec plc and Investec Limited were a single unified enterprise.

Investec plc is regulated by the FSA in the UK and Investec Limited is regulated by the SARB. In addition, a number of subsidiaries are subject to local regulatory oversight of capital sufficiency by the regulators for the jurisdictions in which they operate.

Philosophy and approach

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec has always held capital in excess of regulatory requirements and the group intends to ensure that it continues to remain well capitalised. Accordingly, the group maintains capital adequacy targets of a minimum tier 1 capital ratio of 11% and a total capital adequacy ratio range of 15% to 18%, on a consolidated basis, for Investec plc and Investec Limited.

The determination of target capital is driven by our risk profile, strategy and risk appetite, taking into account regulatory and market factors applicable to the group. At the most fundamental level, we seek to balance our capital consumption between prudent capitalisation in the context of the group's risk profile and optimisation of shareholder returns.

Our internal (economic) capital framework is designed to manage and achieve this balance. The internal capital framework is based on the group's risk identification, review and assessment processes and is used to provide a risk-based approach to capital allocation, performance and structuring of our balance sheet. The objectives of the internal capital framework are to quantify the minimum capital required to:

- Maintain sufficient capital to satisfy the board's risk appetite across all risks faced by the group
- Support a target level of financial strength aligned with a long-term external rating of at least 'A'
- Provide protection to depositors against losses arising from risks inherent in the business
- Provide sufficient capital surplus to ensure that the group is able to retain its going concern basis under relatively severe operating conditions
- Informal discussions with the group's regulators to assist in setting minimum regulatory capital.

The DLC capital committee seeks to optimise the balance sheet such that capital held is in excess of internal capital.

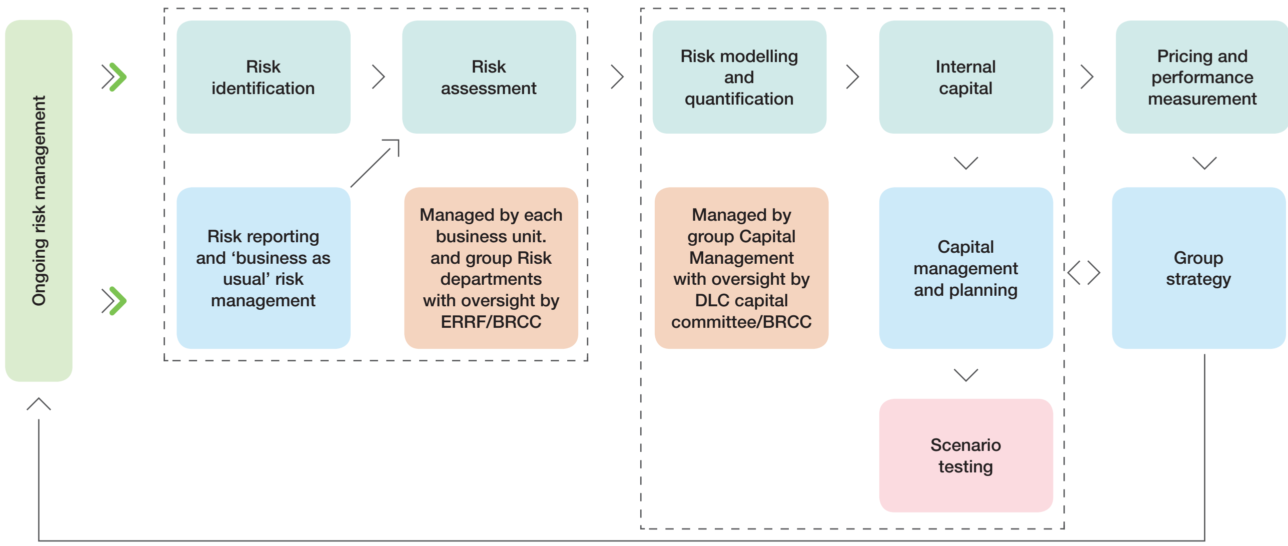
Internal capital performs a critical role in:

- Investment decision making and pricing that is commensurate with the risk being taken
- Allocating capital according to the greatest expected marginal risk-based return, and tracking performance on this basis
- Determining transactional risk-based returns on capital
- Rewarding performance taking into account the relative levels of risk adopted by forming a basis for the determination of economic value added at a transactional level, and hence the basis for discretionary variable remuneration
- Comparing risk-based performance across business areas.

The framework has been approved by the board and is managed by the DLC capital committee, which is responsible for oversight of the management of capital on a regulatory and an internal basis.

In order to achieve these objectives, the internal capital framework describes the following approach to the integration of risk and capital management.

The (simplified) integration of risk and capital management



Risk assessment and identification

We review the business annually to map our universe of key risks, which are ultimately reviewed and agreed by the BRCC following an extensive process of engagement with senior management. This is a bottom-up process initially performed by each business unit across the group. Key risks are then debated and agreed at senior management level and ultimately by BRCC. Assessment of the materiality of risks is directly linked to the board's stated risk appetite and approved risk management policies covering all key risks.

Risk reporting

As part of standard business practice, key identified risks are monitored by group Risk Management and by Internal Audit to ensure that risks are managed to an acceptable level of risk. Detailed performance and control metrics of these risks are reported to each ERRF and BRCC meeting, including, where appropriate, the results of scenario testing. Key risk types that are considered fall within the following:

- Credit and counterparty risk
- Traded market risk
- Equity risk in the banking book
- Balance sheet liquidity and non-trading interest rate risk
- Legal risk
- Operational risk.

Each of these risk categories may consist of a number of specific risks, each of which are analysed in detail and managed through ERRF and BRCC.

Role of regulatory capital in capital management

On 1 January 2008, we began operating under the Basel II regulatory regime across all regulated entities. We have adopted the standardised approach under 'pillar 1' to determine our regulatory minimum capital requirements.

Since the introduction of Basel II, a number of significant amendments have either been introduced or are expected to be introduced over the coming financial year and beyond. Such changes reflect regulatory objectives around financial stability and affect many areas of our approach to ensuring prudential ongoing management of our risks. With respect to capital sufficiency, rules will tend to require banks generally to hold greater amounts of higher quality capital which will have impacts on a range of processes within all banks. We have historically managed our capital to a very high standard and as such we are well placed to meet any new requirements. Because of this, even after allowing for regulatory changes, the risk appetite of the board and senior management remains unchanged.

Local management within each geography are responsible for compliance with the entity's minimum regulatory requirements, although the allocation of capital supply is controlled by the DLC capital committee.

While consideration of regulatory capital is an important component of our management of capital sufficiency, we do not use regulatory capital as the exclusive driver of capital allocation.

Therefore, while regulatory capital requirements under 'pillar 1' form the minimum capital for Investec plc, Investec Limited and their various regulated subsidiaries, our capital management framework places emphasis on the internal assessment of capital requirements and is based on a conservative assessment of the underlying risk of the portfolio. This requirement has been adopted within our approach to 'pillar 2', of which the internal capital framework constitutes a central role.

Risk modelling and quantification (internal capital)

Internal capital requirements are quantified by analysis of the potential impact of key risks to a degree consistent with our risk appetite. Internal capital requirements are supported by

The internal capital framework is based on the group's risk identification, review and assessment processes and is used to provide a risk-based approach to capital allocation, performance and structuring of our balance sheet.

the board approved risk assessment process described above. Quantification of all risks is based on analysis of internal data, management expertise, management judgement and external benchmarking.

The following risks are included within the internal capital framework and quantified for capital allocation purposes:

- Credit and counterparty risk, including:
  - Underlying counterparty risk
  - Concentration risk
  - Securitisation risk
- Traded market risk
- Equity and property risk held in the banking book
- Balance sheet risk, including:
  - Liquidity
  - Non-trading interest rate risk
- Strategic and reputational risks
- Business risk
- Operational risk
- Operational risk is considered as an umbrella term and covers a range of independent risks including, but not limited to fraud, litigation, business continuity, outsourcing and out of policy trading. The specific risks covered are assessed dynamically through constant assessment of the underlying business environment.

Capital management, planning and scenario testing

A group capital plan is prepared and maintained to facilitate discussion of the impact of business strategy and market conditions on our capital sufficiency. This plan is designed to assess capital sufficiency under a range of economic and internal conditions over the medium term (three years), with the impact on earnings, asset growth and liquidity considered. The plan provides the board (via the BRCC) with an input into strategy and the setting of risk appetite by considering business risks and potential vulnerabilities, capital usage and funding requirements given constraints where these exist.

Stressing the business plans through the capital planning process is an important tool by which the board can gain insight to potential sources of vulnerability of the capital sufficiency of the group by way of market, economic or internal events. As such, we stress the capital plans based on conditions most likely to place us under duress. The conditions themselves are agreed by the DLC capital committee after consultation with relevant internal and external experts and research. Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence the determination of our risk appetite.

In particular, our capital plans are designed to allow senior management and the board to review:

- Changes to capital demand caused by implementation of agreed strategic objectives, including the creation or acquisition of new businesses, or as a result of the manifestation of one or more of the risks to which we are potentially susceptible
- The impact on profitability of current and future strategies
- Required changes to the capital structure
- The impact of implementing a proposed dividend strategy
- The impact of alternate market or operating conditions on any of the above.

At a minimum level, each capital plan assesses the impact on our capital adequacy over expected case, upturn and downturn scenarios. On the basis of the results of this analysis the DLC capital committee and the BRCC are presented with the potential variability in capital adequacy and are responsible, in consultation with the board, for consideration of the appropriate response.

Pricing and performance measurement

The use of internal capital means that all transactions are considered in the context of the impact on the allocation of our capital resources, and hence on the basis of their contribution to return on risk-adjusted internal capital. This is to ensure that expected returns are sufficient after taking recognition of the inherent risk generated for a given transaction. This approach allows us to embed risk and capital discipline at the level of deal initiation. Using expectations of risk-based returns as the basis for pricing and deal acceptance ensures that risk management retains a key role in ensuring that the portfolio is appropriately managed for that risk.

In addition to pricing, returns on internal capital are monitored and relative performance is assessed on this basis. Assessment of performance in this way is a fundamental consideration used in setting strategy and risk appetite as well as rewarding performance.

These processes have been embedded across the business with the process designed to ensure that risk and capital management form the basis for key decisions at both a group and a transactional level. Responsibility for oversight for each of these processes ultimately falls to the BRCC.

Responsibility for the risk and capital management process

The Investec plc and Investec Limited boards of directors are ultimately responsible for the respective silo's capital management. The group's senior management take active roles in allocating capital at a transactional level. At the highest level, the boards have delegated direct responsibility for capital management to the BRCC, and in turn to the DLC capital committee.

In order to manage local capital considerations, Investec plc convenes a separate capital committee on a weekly basis to monitor the capital positions of its various subsidiaries, in particular the businesses in the UK and Australia. A formally constituted capital management committee also exists in Australia. Capital adequacy within the Southern African operations is discussed monthly through the regulatory forum, which includes Investec Bank Limited and Investec Bank (Mauritius) Limited. The use of these committees ensures that capital is actively managed from the lowest and most detailed reporting level and cascades up to the ultimate responsible body – the BRCC.

The following areas within the group have specific operational capital management responsibilities:

- Business units, in particular those who conduct their business out of a regulated entity and use large amounts of capital (Private Client and Corporate Client):
  - The transactional consultants within the business units consider the capital requirements and the projected return on this capital as part of the deal approval process. Pricing explicitly takes into account capital usage
  - Management are responsible for translating their detailed individual strategies into a bottom-up capital usage projection for incorporation into the group capital plan. These plans assist senior management with prioritising the use of our available capital
- Group Finance:
  - Regulatory reporting is the responsibility of a dedicated team within group Finance, who are responsible for ensuring regulatory capital requirements are continuously met
  - Financial control, through the capital management function, is responsible for the development and implementation of the internal capital framework and to manage and report on regulatory capital requirements. The development of the internal capital framework includes the result of analysis performed by Risk Management
  - The capital management function also coordinates, with assistance from business units, the development of the group's capital plan
  - As part of the responsibility for the internal capital framework, the allocation of capital is managed centrally by group Finance
  - As with Risk Management, the group Finance IT division plays a critical role in ensuring the integrity of the ledger and all supporting applications which contribute to the regulatory and business intelligence reporting processes
- Risk management:
  - The credit approval process for each (relevant) transaction is approved only after review and approval by our central credit risk management team. Capital usage forms an explicit part of the approval process
  - For exposures which generate market risk, the market risk management team quantify and monitor market risk generated by trading activities. Traded market risk is closely monitored by our various risk management fora
  - As part of operational risk management, a process managed by centralised operational risk management and embedded risk managers within each business unit identifies, assesses and quantifies key operational risks arising from Investec's operations. Quantification is then used as the basis for the operational risk capital used held via the internal capital framework
  - Underpinning all risk management functions is their IT Support division, which ensures that all applications used to calculate and report risk are functioning properly and reconcile to underlying source systems
- Board and group executive:
  - The board has ultimate responsibility for the oversight of day-to-day risk management, capital management and ensuring that both risk and capital are managed commensurate with our strategy and risk appetite. This responsibility is mandated to BRCC
  - The BRCC has delegated management of capital to the DLC capital committee and risk management to ERRF.

Regulatory considerations – capital management

The regulation and supervision of financial institutions continues to undergo significant change in response to the global financial crisis. Changes to rules defining eligibility of qualifying capital and the risk weighting of asset classes proposed under the so-called Basel III and capital requirement directive amendments pose the largest potential changes to the group's balance sheet management priorities. These guidelines have yet to be implemented into law within the group's operating jurisdictions, and therefore remain subject to refinement and change. In addition to Basel III there are a number of sources of potential regulatory change that may affect our capital sufficiency and balance sheet management functions, each of which are closely monitored.

The DLC capital committee is responsible for ensuring that the impact of any regulatory change is analysed, understood and prepared for. To allow the committee to carry out this function, the group's regulatory and capital management teams closely monitor regulatory developments and regularly present to the committee on latest developments. As part of any assessment the committee is provided with analysis showing the group's capital sufficiency taking into account the most up-to-date interpretation of those changes. In addition, regular sessions with the board are held to ensure that members are kept up to date with the most salient changes and their impact on the group and its subsidiaries.

Capital disclosures in terms of Basel II

The tables that follow provide information as required in terms of Basel II.

Accounting and regulatory treatment of group subsidiaries

The regulatory treatment of Investec Limited's principal subsidiaries and associates is set out below:

Investec Limited

			Regulatory treatment			
Identity of investment/ interest held	Regulatory	% interest held	Fully consolidated	Entities that are given a deduction treatment	Country of operation	Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec Limited group
Bank controlling company						
Investec Limited	SARB	100%	Yes		SA	None
Regulated subsidiaries banking and securities trading						
Investec Bank Limited	SARB	100%	Yes		SA	None
Investec Bank (Mauritius) Limited	Bank of Mauritius	100%	Yes		Mauritius	None
Investec Securities Limited	JSE, FSB, BESA, SAFEX	100%	Yes		SA	None
Asset Management						
Investec Asset Management Holdings (Pty) Limited		100%	Yes		SA	None
Investec Asset Management (Pty) Limited	FSB/SAFEX	100%	Yes		SA	None
Investec Fund Managers SA (RF) (Pty) Limited	FSB/SAFEX	100%	Yes		SA	None
Insurance						
Investec Employee Benefits Holdings (Pty) Limited	FSB	100%	Deconsolidated		SA	None
Investec Employee Benefits Limited	FSB	100%	Deconsolidated		SA	None
Insurance (continued)						

Identity of investment/ interest held	Regulatory	% interest held	Regulatory treatment: Fully consolidated	Regulatory treatment: Entities that are given a deduction treatment	Country of operation	Restrictions and major impediments on the transfer of funds and regulatory capital within the Investec Limited group
Investec Assurance Limited	FSB and Long-Term Insurance Act	100%	Deconsolidated		SA	None
Unregulated subsidiaries	Not regulated subject to consolidated supervision					
Reichmans Holdings Limited		100%	Yes		SA	None
AEL Investment Holdings (Pty) Limited		100%	Yes		SA	None
Investpref Limited		100%	Yes		SA	None
KWJ Investments (Pty) Limited		100%	Yes		SA	None
Securities Equities (Pty) Limited		100%	Yes		SA	None
Sechold Finance Services (Pty) Limited		100%	Yes		SA	None
Investec Personal Financial Services (Pty) Limited		100%	Yes		SA	None
Fedsure International Limited		100%	Yes		SA	None
Investec Share Plan Services (Pty) Limited		100%	Yes		SA	None
Investec International Holdings (Gibraltar) Limited		100%	Yes		SA	None
World Axis Management (Pty) Limited		100%	Yes		SA	None
Investec Group Data (Pty) Limited		100%	Yes		SA	None
Fuzztique (Pty) Limited		100%	Yes		SA	None
Investec Property Group Holdings (Pty) Limited		100%	Yes		SA	None

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings, other than indicated on the table above.

Capital management and allocation

Capital structure

Summary information on the terms and conditions of the main features of all capital instruments is provided on page 174.

As at 31 March R'million	2012 Investec Limited	2012 IBL*	2011 Investec Limited	2011 IBL*
Regulatory capital				
Tier 1				
Called up share capital	–	29	–	27
Share premium	10 887	13 527	10 719	11 845
Retained income	12 532	7 807	10 903	7 067
Treasury shares	(825)	–	(807)	–
Other reserves	143	6	389	250
Non-controlling interest in subsidiaries	–	–	–	–
Goodwill and intangible assets	(266)	(96)	(314)	(108)
Primary capital (tier 1)	22 471	21 273	20 890	19 081
Less: deductions	(248)	(248)	(297)	(297)
	22 223	21 025	20 593	18 784
Tier 2 capital				
Aggregate amount	8 915	8 915	7 039	7 039
Less: deductions	(248)	(248)	(297)	(297)
	8 667	8 667	6 742	6 742
Other deductions from tier 1 and tier 2	–	–	–	–
Total capital	30 890	29 692	27 335	25 526

Capital requirements

As at 31 March R'million	2012 Investec Limited	2012 IBL*	2011 Investec Limited	2011 IBL*
Capital requirements	18 276	17 504	16 377	15 537
Credit risk – prescribed standardised exposure classes	13 201	13 081	11 869	11 662
Corporates	7 881	7 773	7 541	7 369
Secured on real estate property	1 246	1 246	1 166	1 166
Counterparty risk on trading positions	498	498	395	364
Short-term claims on institutions and corporates	2 041	2 033	1 553	1 553
Retail	314	314	291	291
Institutions	1 125	1 125	845	841
Other exposure classes	96	92	78	78
Securitisation exposures	382	382	450	450
Equity risk – standardised approach	2 428	2 376	2 160	2 109
Listed equities	281	229	346	295
Unlisted equities	2 147	2 147	1 814	1 814
Market risk – portfolios subject to internal models approach	463	421	129	90
Interest rate	125	125	40	40
Foreign exchange	120	120	21	21
Commodities	2	2	1	1
Equities	216	174	67	28
Operational risk – standardised approach	1 802	1 244	1 769	1 226

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*

Capital adequacy

As at 31 March R'million	2012 Investec Limited	2012 IBL*	2011 Investec Limited	2011 IBL*
Primary capital (tier 1)	22 471	21 273	20 890	19 081
Less: deductions	(248)	(248)	(297)	(297)
	22 223	21 025	20 593	18 784
Tier 2 capital				
Aggregate amount	8 915	8 915	7 039	7 039
Less: deductions	(248)	(248)	(297)	(297)
	8 667	8 667	6 742	6 742
Other deductions from tier 1 and tier 2	–	–	–	–
Total capital	30 890	29 692	27 335	25 526
Risk-weighted assets (banking and trading)	192 376	184 253	172 370	163 537
Credit risk – prescribed standardised exposure classes	138 965	137 704	124 918	122 751
Corporates	82 961	81 824	79 376	77 573
Secured on real estate property	13 117	13 117	12 270	12 270
Counterparty risk on trading positions	5 245	5 245	4 153	3 829
Short-term claims on institutions and corporates	21 489	21 401	16 342	16 342
Retail	3 301	3 301	3 067	3 067
Institutions	11 846	11 846	8 892	8 852
Other exposure classes	1 006	970	818	818
Securitisation exposures	4 017	4 017	4 737	4 737
Equity risk – standardised approach	25 558	25 011	22 740	22 204
Listed equities	2 954	2 407	3 646	3 110
Unlisted equities	22 604	22 604	19 094	19 094
Market risk – portfolios subject to internal models approach	4 867	4 424	1 358	943
Interest rate	1 314	1 314	420	420
Foreign exchange	1 266	1 266	221	221
Commodities	17	17	9	9
Equities	2 270	1 827	708	293
Operational risk – standardised approach	18 969	13 097	18 617	12 902
Capital adequacy ratio	16.1%	16.1%	15.9%	15.6%
Tier 1 ratio	11.6%	11.4%	11.9%	11.5%

* *Where: IBL is Investec Bank Limited. The information for Investec Limited includes the information for IBL.*

Analysis of rated counterparties in each standardised credit exposure class

The table below shows the exposure amounts associated with the credit quality steps and the relevant risk weightings

		31 March 2012		31 March 2011	
Credit quality step	Risk weight	Exposure R'million	Exposure after credit risk mitigation R'million	Exposure R'million	Exposure after credit risk mitigation R'million
Central banks and sovereigns					
1	0%	38 679	38 679	35 074	35 074
2	20%	–	–	–	–
3	50%	29	29	46	46
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Institutions original effective maturity of more than three months					
1	20%	2 450	2 308	2 993	2 993
2	50%	15 901	12 239	9 088	9 088
3	50%	10 185	10 171	6 540	6 384
4	100%	–	–	–	–
5	100%	–	–	–	–
6	150%	–	–	–	–
Short term claims on institutions					
1	20%	841	841	1 375	1 375
2	20%	12 324	12 324	743	743
3	20%	1 745	1 745	2 038	783
4	50%	–	–	–	–
5	50%	–	–	–	–
6	150%	–	–	–	–
Corporates					
1	20%	1 052	620	188	188
2	50%	149	149	57	57
3	100%	142	142	330	262
4	100%	125	125	116	116
5	150%	–	–	–	–
6	150%	–	–	55	55
Securitisation positions					
1	20%	1 332	1 332	2 017	2 017
2	50%	2 691	2 691	1 963	1 963
3	100%	980	980	1 150	1 150
4	350%	286	286	600	600
5	1 250%	496	496	583	583
Total rated counterparty exposure		89 407	85 157	64 956	63 477

Credit ratings

In terms of our dual listed companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned ratings to the significant banking entities within the group, namely Investec Bank plc, Investec Bank Limited and Investec Bank (Australia) Limited. Certain rating agencies have assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings as at 31 March 2012 are as follows:

Rating agency		Investec Limited	Investec Bank Limited – a subsidiary of Investec Limited
Fitch	Long term ratings		
	Foreign Currency	BBB	BBB
	National		A+(zaf)
	Short term rating		
	Foreign Currency	F3	F3
	National		F1 (zaf)
	Viability rating	bbb	bbb
	Support rating	5	2
Moody's	Long term deposit ratings		
	Foreign Currency		A3
	National		Aa3 (za)
	Short term deposit rating		
	Foreign Currency		Prime-2
	National		P1 (za)
	Bank financial strength rating		C-
Global Credit Ratings	Local currency		
	Short-term rating		A1+(za)
	Long-term rating		AA-(za)

Internal audit

Internal Audit provides objective and independent assurance, via the group audit committees, to the management and board of Investec about risk management, control and governance processes and systems.

Internal audit activity is governed by an internal audit charter which is approved by the group audit committees and is reviewed annually. The charter defines the purpose, authority and responsibilities of the function.

As a result of the regulatory responsibilities arising from the DLC structure, there are two group internal audit departments located in London and Johannesburg, responsible for Investec plc and Investec Limited respectively. Investec Bank (Australia) Limited has its own internal audit function reporting into Investec plc Internal Audit. In combination, the functions cover all the geographies in which Investec operates. These functions use a global risk-based methodology and cooperate technically and operationally.

The heads of internal audit report at each audit committee meeting and have a direct reporting line to the chairman of the audit committee. They operate independently of executive management but have access to their local chief executive officer. The heads of internal audit are responsible for coordinating internal audit efforts to ensure coverage is global and departmental skills are leveraged to maximise efficiency. For administrative purposes the heads of internal audit also report to the global head of corporate governance and compliance. The functions comply with the international standards for the professional practice of internal auditing.

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible audit committee. High risk businesses and processes are audited annually, with other areas covered at regular intervals based on their risk profile. There is an ongoing focus on identifying fraud risk as well as auditing technology risks given Investec's dependence on IT systems. Internal Audit also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of combined assurance. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The audit committee approves any changes to the plan.

Significant control weaknesses are reported, in terms of an escalation protocol, to the audit and compliance implementation forums, where remediation procedures and progress are considered and monitored in detail by management. The audit committee receives a report on significant issues and actions taken by management to enhance related controls. An update on the status of previously raised issues is provided by Internal Audit to each audit committee, if there are concerns in relation to overdue issues these will be escalated to the executive risk review forum to expedite resolution.

Internal Audit proactively reviews its practices and resources for adequacy and appropriateness, to meet our increasingly demanding corporate governance and regulatory environment including the requirements of King III in South Africa. The audit teams comprise well-qualified, experienced staff to ensure that the function has the competence to match Investec's diverse requirements. Where specific specialist skills or additional resources are required, these are obtained from third parties. Internal audit resources are subject to review by the respective audit committees.

Compliance

In keeping with our core values, Investec endeavours to comply with the highest professional standards of integrity and behaviour, always keeping the interests of our customers and shareholders at the forefront of the corporate agenda. We also seek to bring high standards of compliance good practice to all our jurisdictions in order to build trust and promote the quality of service to our colleagues and clients.

Compliance risk is the risk that Investec fails to comply with the letter and spirit of statutes, regulations, supervisory requirements and industry codes of conduct which apply to our businesses. At Investec we manage compliance risk through internal policies and processes, which include legal, regulatory and operational requirements relevant to the business. Those responsible for compliance work closely with the business and operational units to ensure consistent management of compliance risk. They also provide regular training and advice on emerging policy issues to ensure that all employees are familiar with their regulatory obligations.

As well as monitoring the business units to ensure adherence to policies and procedures, compliance officers are charged with developing and maintaining constructive working relationships with regulators and supervisors in all jurisdictions.

In addition to monitoring compliance with the provisions prescribed by the respective regulatory authorities, key compliance functions include ensuring that the business is not being used for money laundering, terrorist financing or market abuse, that customers are fairly treated and afforded the necessary consumer protections and that conflicts of interests are adequately identified and managed. Current regulatory themes and developments in these and other areas are covered in the respective jurisdictions' year in review below.

The volume of regulatory pressure on the sector to implement reforms has continued to be resource intensive, with little indication that the rate of regulatory intervention is likely to slow down in the near future. Despite this pressure, Investec has continued to successfully adapt to the changing landscape by dedicating significant resources to monitoring, analysing and implementing regulatory developments as they arise.

Year in review

The 2011 budget speech, and National Treasury's publication of the Red Book with the same title, highlighted the need for 'A safer financial sector to serve South Africa better' and the required regulatory response post the global financial crisis. The 'Twin Peaks' model of regulation was identified as the most appropriate model going forward with separate regulators being responsible for prudential and market conduct regulation across industries. The Red Book proposes the South African Reserve Bank (SARB) as the prudential regulator and Financial Services Board (FSB) as the market conduct regulator.

To give effect to the Twin Peaks model of regulation a variety of South African legislation needs to be amended to ensure each regulator has the appropriate authority and scope to enable adequate regulation. To initiate this process the FSB has published 'The Roadmap: Treating Customers Fairly (TCF)' which sets out their programme and intended timelines for market conduct regulation. The six principles set out by the FSB mirror the equivalent principles published by the FSA in the UK.

Consumer protection

Accordingly, consumer protection regulation remains a key focus into 2012 with additional emphasis on aligning existing processes with the TCF Roadmap published by the FSB.

As required by FAIS, the fit and proper status of representatives and key individuals of all licensed Investec financial services providers (FSPs) is monitored on an ongoing basis and the requisite reports are made to the FSB. The 'fit and proper' status refers to the qualifications and experience needed to perform a representative or key individual role for an FSP, and includes the requirement to successfully complete designated representative exams. The majority of representatives and key individuals of Investec FSPs have already successfully completed the required regulatory examinations, despite the extensions granted to June and September 2012, respectively. We are satisfied that all representatives and key individuals will be 'fit and proper' by the necessary deadlines.

The most recent draft of the Protection of Personal Information Bill (POPI) was debated at the Technical Working Committee during March 2012. The next version, incorporating amendments, was presented to the full portfolio committee during the April 2012 parliamentary term. Promulgation is anticipated during 2012, although implementation time frames have not been agreed yet. Once enacted POPI will have a material impact on all aspects of Investec's business that concern the processing of personal information in respect of Investec's clients and employees, as well as information relating to the Investec group and subsidiaries.

4

Investec is committed to promoting sustainable stakeholder confidence in our conduct as a business and as a responsible corporate citizen.

Introduction

This section provides a summary of our corporate governance philosophy and practices. A more detailed review is provided in the Investec group's 2012 annual report.

While the Investec board provides leadership based on an ethical foundation, and oversees the overall process and structure of corporate governance, each business area and every employee of the group is responsible for acting in accordance with sound corporate governance practices.

Investec's values and philosophies are the framework against which we measure behaviour and practices so as to assess the characteristics of good governance. Our values require that directors and employees behave with integrity, displaying consistent and uncompromising moral strength and conduct in order to promote and maintain trust.

Sound corporate governance is implicit in our values, culture, processes, functions and organisational structure. Structures are designed to ensure that our values remain embedded in all businesses and processes. We continually refine these structures and a written statement of values serves as our code of ethics.

Governance framework

Investec Limited and Investec plc, together with their subsidiaries, are merged as a single economic enterprise as a result of the dual listed companies (DLC) structure.

The group has adopted a risk and governance structure which allows for the operation of the various committees and forums at group level. Investec's governance framework is depicted on page 34. This avoids the necessity of having to duplicate various committees and forums at group subsidiary level. Due to the DLC structure, we have combined board committees of Investec Limited and Investec plc. Full disclosure of the functioning and responsibilities of these board committees can be found in the Investec group's 2012 annual report.

Board statement

The board, management and employees of Investec are committed to complying with the JSE Limited (JSE) listings requirements, regulatory requirements in the countries in which we operate and the majority of the King Code of Governance Principles for South Africa 2009 (King III), whereby all stakeholders are assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practices.

Governance requirements

King III

King III distinguishes between statutory provisions, voluntary principles and recommended practices. The King III Report provides best practice recommendations, whereas the King III Code provides the principles that all entities should apply.

The majority of the principles of King III are being applied and is evidenced in the various sections of the Investec group's 2012 annual report.

The following principle of King III is currently not being applied by Investec:

- Sustainability reporting and disclosure should be independently assured
  - Sustainability reporting and related disclosure was not independently assured by an external expert. The audit committees have overseen the integrated report, including sustainability disclosures, which have been verified by the Internal Audit division
  - We recognise the importance of sustainability reporting and verification of our efforts in this area. During the 2012 financial year, we designed and implemented a reporting system to align our sustainability process across the group and accordingly we will be able to commission external verification for the 2013 financial year.

Financial reporting and going concern

The directors are required to confirm that they are satisfied that Investec Limited has adequate resources to continue in business for the foreseeable future. The assumptions underlying the going concern statement are discussed at the time of the approval of the annual financial statements by the board and these include:

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

In addition, the directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the Investec Limited financial statements, accounting policies and the information contained in the annual report.

Our financial statements are prepared on a going concern basis.

The board is of the opinion, based on its knowledge of the group, key processes in operation and specific enquiries, that there are adequate resources to support the group as a going concern for the foreseeable future. Further information on our liquidity and capital position is provided on pages 69 to 75 and pages 79 to 88.

Furthermore, the board is of the opinion that the group's risk management processes and the systems of internal control are effective.

Board of directors

Biographical details of the directors are set out on pages 100 to 102, with more information in the Investec group's 2012 annual report.

The board seeks to exercise leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. The board is accountable for the performance and affairs of Investec. It provides leadership for the group within a framework of prudent and effective controls which allows risks to be assessed and managed.

The combined boards of Investec Limited and Investec plc have adopted a board charter, which provides a framework of how the boards operate as well as the type of decisions to be taken by the board and which should be delegated to management.

For more information on the board's objectives, role and responsibilities refer to the Investec group's 2012 annual report.

Composition, structure and process

At the end of the year under review, the board, excluding the joint chairmen, comprised four executive directors and 10 non-executive directors.

Refer to the Investec group's 2012 annual report for disclosures on:

- Board changes during the past year
- Independence of board members and the chairmen
- Skills, knowledge, experience and attributes of directors
- Board and directors' performance evaluation
- Terms of appointment
- Ongoing training and development
- The role of the joint chairmen and chief executive officer
- Board meetings
- Dealings in securities
- Directors dealings.

Board committees

In exercising control of the group, the directors are empowered to delegate to various board and executive committees. The committees have specific terms of reference, appropriately skilled members and access to specialist advice when necessary.

Below is an overview of the various committees' composition and responsibilities. The full terms of reference are available on our website.

Investec Limited board of directors

DLC nominations and directors' affairs committee | **Five NEDs (three independent)** | **Meets four times per annum**

Responsibilities, *inter alia*, include:
- Identification and nomination of board candidates
- Determining and evaluating the adequacy, efficiency and appropriateness of the group's corporate governance
- Reviewing board composition and recommending changes
- Succession planning and management.

DLC audit committee | **Four independent NEDs** | **Meets four times per annum**

Responsibilities, *inter alia*, include:
- Review and oversight of combined reports, financial statements and the integrated report
- External and internal audit oversight
- Compliance oversight
- Monitoring the effectiveness of the systems of internal financial control
- Reviewing any matters affecting the financial safety of the DLC group.

Board risk and capital committee | **Three executives eight NEDs (five independent)** | **Meets six times per annum**

Responsibilities, *inter alia*, include:
- Monitoring and implementation of risk management policies and procedures
- Review of the adequacy of the risk management structure and processes
- Ratifying exposure limits for market, counterparty and credit risk
- Monitoring of liquidity and operational risks.

DLC remuneration committee | **Four independent NEDs** | **Meets 12 times per annum**

Responsibilities, *inter alia*, include:
- Determining, developing and agreeing the executive (directors and management) remuneration framework
- Ensuring appropriate incentives to encourage enhanced performance in contribution to the success of the group and alignment with the corporate objectives and business strategy.

Investec Limited audit committee | **Four independent NEDs** | **Meets four times per annum**

Audit and compliance implementation forums

DLC capital committee

Capital planning, allocation and structuring, performance measurement, investment decisions and capital based incentivisation.

Three executives one independent NED

Meets at least quarterly

Executive risk review forum

Measuring, monitoring and mitigation of enterprise wide risk.

Three executives and senior management

Meets weekly

DLC social and ethics committee | **Three independent NEDs** | **Meets four times per annum**

Responsibilities, *inter alia*, include:
- Monitoring the group's social and economic development and good corporate citizenship.

Refer to the Investec group's 2012 annual report for information on the membership, role and responsibilities and meeting attendance of the various board committees.

The report to shareholders by the chairman of the audit committee on how the committee has discharged its duties can be found on pages 103 to 105.

Remuneration

The board believes that a properly constituted and effective remuneration committee is key to maintaining the link between pay and performance. Our remuneration philosophy, which remains unchanged from prior years, is to employ the highest calibre individuals, who are characterised by integrity, intellect and innovation and who adhere and subscribe to our culture, values and philosophies. We strive to inspire entrepreneurship by providing a working environment that stimulates extraordinary performance, so that executive directors and employees may be positive contributors to our clients, their communities and the group.

The type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining our success and long-term progress. Our reward programmes are clear and transparent, designed and administered to align directors' and employees' interests with those of all stakeholders and ensure the group's short-, medium- and long-term success. In summary, we recognise that banks have to divide the return from their enterprises between the suppliers of capital and labour and the societies in which they do business, the latter through taxation and corporate social responsibility activities.

Our global remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our core values and philosophies which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society. Further information regarding our remuneration philosophy and processes and directors' remuneration is provided in the Investec group's 2012 annual report.

Our global remuneration philosophy seeks to maintain an appropriate balance between the interests of stakeholders, and is closely aligned to our core values and philosophies.

South African Companies Act, 2008 disclosures Audited

Subsequent to regulatory developments in South Africa, Investec Limited is required to disclose the remuneration of those individuals that are defined by the South African Companies Act No 71 of 2008 as amended, read together with the Companies Regulations 2011 (together the Act), as Prescribed Officers.

In keeping with the group's integrated global management structure as well as the three distinct business activities of the group, i.e. Asset Management, Wealth & Investment and Specialist Banking, the Prescribed Officers for Investec Limited, as per the Act are the following Global Heads of the group's three distinct business activities:

- Asset Management
  - Hendrik du Toit
- Wealth & Investment
  - Steve Elliott
- Specialist Banking
  - Stephen Koseff
  - Bernard Kantor
  - Glynn Burger.

Hendrik, Stephen, Bernard and Glynn are also the four executive directors of Investec Limited and their remuneration is disclosed in the Investec group's 2012 annual report. Steve is remunerated by Investec plc (a UK domiciled company) and is not required to disclose his remuneration under the South African Companies Act.

Pillar Three remuneration disclosures

The bank in South Africa is required to make certain quantitative and qualitative remuneration disclosures on an annual basis in terms of the South African Reserve Bank's Basel Pillar Three Disclosure requirements. These disclosures can be found in the Investec group's 2012 annual report.

Management and succession planning

Global business unit heads, geographic management and the heads of central and group service functions are appointed by executive management and endorsed by the board, based on the skills and experience deemed necessary to perform the required function. In general, managers do not have fixed term employment contracts and there are no employment contracts with managers for a term of more than three years. Our management structure, reporting lines and the division of responsibilities are built around a geographic, divisional and functional network.

Each strategic business unit has a management committee and is responsible for implementing operational decisions, managing risk and aligning divisional objectives with the group strategy and vision.

Matters of succession are considered regularly by the nominations and directors' affairs committee (NOMDAC).

Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The board risk and capital committee (BRCC) and audit committees assist the board in this regard. Sound risk management practices are promoted by the group risk management function, which is independent of operational management. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness.

Internal control is designed to mitigate, not eliminate, significant risks faced. It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. This is achieved within the group through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as group risk management, internal audit and compliance. These ongoing processes, which comply with the Turnbull guidance, were in place throughout the year under review and up to the date of approval of the annual report and accounts.

Internal audit reports any control recommendations to senior management, group Risk Management and the relevant audit committee. Appropriate processes, including review by the audit and compliance implementation forums, ensure that timely corrective action is taken on matters raised by internal audit. Significant risks are reviewed regularly by the executive risk review forum (ERRF) and by the BRCC. Material incidents and losses and significant breaches of systems and controls are reported to the board risk and capital committee and the audit committees. Reports from the audit committees, BRCC and risk and control functions are reviewed at each board meeting.

Certain statutory duties with respect to directors' conflicts of interest are in force under the Companies Act No 71 of 2008 (the Act), as amended. In accordance with the Act and the Memorandum of Incorporation, the board may authorise any matter that otherwise may involve the directors breaching their duty to avoid conflicts of interest.

Internal financial controls

Internal financial controls are based on established policies and procedures. Management is responsible for implementing internal financial controls, ensuring that personnel are suitably qualified, that appropriate segregation exists between duties, and that there is suitable independent review. These areas are monitored by the board through the audit committees and are independently assessed by Internal Audit and Compliance.

External audit

Investec's external auditors are Ernst & Young Inc and KPMG Inc. The independence of the external auditors is reviewed by the audit committees each year.

The audit committees meet with the external auditors to review the scope of the external audit, budgets, the extent of non-audit services rendered and all other audit matters.

The external auditors are invited to attend audit committee meetings and have access to the chairman of each audit committee. Recommendations on the rotation of auditors, as laid out in the Directive 6/2008 of the South African Banks Act, were adhered to during the year under review.

Non-audit services are dealt with in terms of an agreed policy.

Regulation and supervision

Investec is subject to external regulation and supervision by various supervisory authorities in each of the jurisdictions in which we operate, the main one being the Banking Supervision Department (BSD) of the South African Reserve Bank (SARB). Some of our businesses are subject to supervision by the South African Financial Services Board, South African National Credit Regulator and the South African Financial Intelligence Centre.

Communication, public disclosure obligations and stakeholder relations

The board recognises that effective communication is integral in building stakeholder value and is committed to providing meaningful, transparent, timely and accurate financial and non-financial information to primary stakeholders. The purpose is to help these stakeholders make meaningful assessments and informed investment decisions about the group.

We endeavour to present a balanced and understandable assessment of our position by addressing material matters of significant interest and concern. We seek to highlight the key risks to which we consider ourselves exposed and our responses to minimise the impact of these risks. Another objective is to show a balance between the positive and negative aspects of our activities in order to achieve a comprehensive and fair account of our performance.

Values and code of conduct

We have a strong organisational culture of entrenched values, which forms the cornerstone of our behaviour towards all stakeholders. These values are embodied in a written statement of values, which serves as our code of ethics, and is continually reinforced.

We view all employees as the custodians of ethical behaviour, which is reinforced through internal processes, policies and procedures. As such all new employees are invited, and are strongly encouraged, to attend an induction process at which our philosophies, values, culture, risk management and compliance procedures are explained and discussed.

Our organisation development team plays an important role in facilitating the understanding and ongoing practice of our values, philosophies and culture. In addition to our values, acceptable business practices are communicated through the Human Resources practices' manual, available on the intranet.

Sustainable business practices

Just as relevant as our business accomplishments is the manner in which we conduct ourselves in attaining them. Our sustainability goals reflect our culture of continuous advancement and reaffirm our belief that sustainability in its broadest sense is about managing and positioning the group for the long term. Investec's sustainability philosophy is based on the recognition that we are a specialist bank and asset manager driven by our commitment to our culture and values.

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through entrepreneurship and education and leveraging the value in our diversity. We recognise the challenges that climate change presents to the global economy and we will consider supporting any meaningful activity that either reduces the negative impact on, or prolongs the life of, our planet.

Our philosophy seeks to align the interests of shareholders and stakeholders over time, and provides the individual business units and regions with a basis from which to determine their own approach. The group's philosophy is not intended to be mutually exclusive, nor exhaustive, but allows us to concentrate, for now, on key focus areas. Deliberately not driven on a top-down basis, the executive maintains responsibility for oversight, direction, coordination and integration of our sustainability efforts while the individual business units provide the principal drivers behind our activities, in a manner that best makes sense to each.

We have a strong organisational culture of entrenched values, which forms the cornerstone of our behaviour towards all stakeholders.

Annexure 1: Summary employment equity progress report as at 31 March 2012

Every designated employer that is a public company is required in terms of Section 22 of the Employment Equity Act to publish a summary report of their employment equity progress in their annual report. Investec Limited's progress in this regard is reported in the table below.

	Male			
Occupational level based on current categorisations	African	Coloured	Indian	White
Top management	2	–	1	17
Senior management	9	7	24	211
Professionally qualified and experienced specialist and mid-management	116	29	94	519
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	120	41	42	127
Semi-skilled and discretionary decision making	71	11	1	5
Total permanent employees	318	88	162	879
Temporary employees	36	10	13	78
Grand total	354	98	175	957

Annexure 2: Home loan mortgage disclosure as at 31 March 2012

In terms of the Home Loan Mortgage Disclosure Act 63 of 2003, all financial institutions are required to disclose information regarding the provision of home loans. Investec offers home loans to individuals through its Private Banking division. The information required to be disclosed by the Act can be seen in the tables below.

	African		Coloured	
Analysis by race group	Number of applications	Rand amount	Number of applications	Rand amount
Received	857	1 204 769 230	250	302 169 487
Approved	604	861 930 326	186	250 361 064
Expired (approved – not taken up)	127	157 501 082	42	27 115 567
Declined	33	34 565 202	3	4 052 804
New instruction	93	150 772 620	19	20 640 052
Disbursed/paid out	406	447 508 336	125	141 804 327

	Eastern Cape		Free State		Gauteng	
Analysis by region	Number of applications	Rand amount	Number of applications	Rand amount	Number of applications	Rand amount
Received	417	577 204 221	92	189 899 679	5 945	10 381 014 385
Approved	321	453 042 196	68	146 873 049	4 440	8 125 113 052
Expired (approved – not taken up)	48	38 252 700	15	11 233 400	843	1 132 539 203
Declined	9	22 203 400	1	267 425	94	151 068 371
New instruction	39	63 705 925	8	31 525 805	568	972 293 760
Disbursed/paid out	209	312 960 813	43	73 652 715	2 835	4 708 905 294

	Northern Cape		Western Cape		Unknown	
Analysis by region (continued)	Number of applications	Rand amount	Number of applications	Rand amount	Number of applications	Rand amount
Received	24	29 483 254	3 019	5 311 203 364	194	259 034 747
Approved	18	23 775 934	2 233	3 937 542 617	128	191 304 966
Expired (approved – not taken up)	2	2 132 500	432	650 610 387	32	26 776 236
Declined	–	–	30	39 911 346	1	895 600
New instruction	4	3 574 820	323	679 533 884	33	40 057 945
Disbursed/paid out	16	13 723 852	1 145	2 610 460 567	81	126 219 079

Female				Foreign nationals		Total
African	Coloured	Indian	White	Male	Female	
–	–	–	3	–	–	23
11	5	5	85	2	3	362
159	86	141	514	17	7	1 682
156	149	103	317	–	2	1 057
32	7	–	3	–	–	130
358	247	249	922	19	12	3 254
42	11	16	52	5	2	265
400	258	265	974	24	14	3 519

Indian		White		Other		Unknown	
Number of applications	Rand amount	Number of applications	Rand amount	Number of applications	Rand amount	Number of applications	Rand amount
756	1 094 813 106	6 292	10 439 214 466	69	93 865 532	2 783	5 995 190 798
543	789 588 325	4 687	8 118 762 671	43	53 096 644	2 142	4 688 235 016
137	190 714 325	882	1 065 501 798	11	17 796 252	291	546 883 981
12	29 846 443	75	134 030 095	1	1 030 000	22	34 137 190
64	84 664 013	648	1 120 919 902	14	21 942 636	327	722 329 481
399	496 798 881	3 029	4 628 511 398	21	23 162 812	988	3 311 587 304

KwaZulu-Natal		Limpopo		Mpumalanga		North West	
Number of applications	Rand amount	Number of applications	Rand amount	Number of applications	Rand amount	Number of applications	Rand amount
1 087	1 960 137 778	32	40 497 652	116	200 157 377	81	181 390 162
817	1 555 484 359	28	34 906 252	82	122 206 665	70	171 724 957
99	118 338 122	3	3 985 700	11	15 563 252	5	6 081 505
9	18 884 892	–	–	2	4 430 700	–	–
162	267 430 405	1	1 605 700	21	57 956 760	6	3 583 700
522	1 015 889 532	11	16 643 200	57	90 881 862	49	80 036 144

Status	Total number of applications	Total rand amount
Received	11 007	19 130 022 619
Approved	8 205	14 761 974 046
Expired (approved – not taken up)	1 490	2 005 513 005
Declined	146	237 661 734
New instruction	1 165	2 121 268 704
Disbursed/paid out	4 968	9 049 373 057

Directorate Investec Limited

Executive directors (details as at the date of this report)

Stephen Koseff (60)
Chief executive officer
BCom, CA(SA), H Dip BDP, MBA

Committees: Board risk and capital, DLC capital, DLC social and ethics and global credit

Stephen joined Investec in 1980. He has had diverse experience within Investec as chief accounting officer and general manager of banking, treasury and merchant banking.

Current directorships: The Bidvest Group Limited, Investec Wealth & Investment Limited and a number of Investec subsidiaries.

Bernard Kantor (62)
Managing director
CTA

Committees: Board risk and capital, DLC capital, DLC social and ethics and global credit

Bernard joined Investec in 1980. He has had varied experience within Investec as a manager of the Trading division, marketing manager and chief operating officer.

Current directorships: Phumelela Gaming and Leisure Limited, Investec Wealth & Investment Limited and a number of Investec subsidiaries.

Glynn R Burger (55)
Group risk and finance director
BAcc, CA(SA), H Dip BDP, MBL

Committees: Board risk and capital, DLC capital and global credit

Glynn joined Investec in 1980. His positions within Investec have included chief accounting officer, group risk manager and joint managing director for South Africa.

Current directorships: Investec Bank Limited and a number of Investec subsidiaries.

Hendrik du Toit (50)
Investec Asset Management chief executive officer
BCom Law, BCom (Hons) (cum laude), (MCom) (cum laude), MPhil (Cambridge)

After lecturing economics at the University of Stellenbosch, Hendrik joined the Investment division of Old Mutual from where he moved to Investec in 1991 as portfolio manager and later chief executive officer of Investec Asset Management.

Current directorships: Investec Asset Management Holdings (Pty) Limited and Investec Asset Management Limited as well as their subsidiaries.

Non-executive directors (details as at the date of this report)

Sir David Prosser* (68)
Joint chairman
BSc (Hons), FIA

Committees: DLC remuneration, DLC nominations and directors' affairs and board risk and capital

Sir David was previously chief executive of Legal & General Group PLC, joining Legal & General in 1988 as group director (investments) becoming deputy chief executive in January 1991 and group chief executive in September 1991. Sir David was previously chairman of the Financial Services Skills Council.

Current directorships: Investec Bank plc (chairman) Pippbrook Limited, Epsom Downs Racecourse Limited and The Royal Automobile Club Limited.

Fani Titi* (49)
Joint chairman
BSc (Hons), MA, MBA

Committees: Board risk and capital, DLC nominations and directors' affairs and DLC social and ethics

Fani is chairman of Investec Bank Limited and formerly the chairman of Tiso Group Limited.

Current directorships: Investec Bank Limited (Chairman), Tsiya Group (Pty) Limited and a number of its investee companies, Investec Employee Benefits Limited and Investec Asset Management Holdings (Pty) Limited.

* *Joint chairmen with effect from 17 November 2011.*

Non-executive directors (details as at the date of this report) (continued)

Sam E Abrahams (73)

FCA, CA(SA)

Committees: DLC audit, Investec plc audit, Investec Limited audit, DLC nominations and directors' affairs, board risk and capital and DLC capital and global credit

Sam is a former international partner and South African managing partner of Arthur Andersen.

Current directorships: Investec Bank Limited, The Foschini Group Limited and a number of Investec subsidiaries.

George FO Alford (63)

Senior independent director

BSc (Econ), FCIS, FIPD, MSI

Committees: DLC audit, Investec plc audit, Investec Limited audit, DLC remuneration and board risk and capital

George is a former head of private banking and personnel at Kleinwort Benson Group and was a senior adviser to the UK Financial Services Authority.

Current directorships: Investec Bank plc.

Cheryl A Carolus (53)

BA (Law), BEd

Committees: DLC social and ethics

Cheryl acted as the South African high commissioner to London between 1998 and 2001 and was chief executive officer of South African Tourism. She is chairperson of South African Airways.

Current directorships: De Beers Consolidated Mines Limited, Gold Fields Limited, South African Airways (Pty) Limited, Mercedes-Benz South Africa (Pty) Limited, WWF South Africa and International, The IQ Business Group (Pty) Limited, Fenner Conveyor Belting South Africa (Pty) Limited, Ponahalo Capital (Pty) Limited, Investec Asset Management Holdings (Pty) Limited, executive chairperson of Peotona Group Holdings (Pty) Limited and director of a number of the Peotona group companies.

Peregrine KO Crosthwaite (63)

MA (Hons) in modern languages

Committees: DLC remuneration

Perry is a former chairman of Investec Investment Banking Securities Limited and director of Investec Bank plc.

Current directorships: Investec Bank plc, Jupiter Green Investment Trust, Melrose plc and Toluna plc.

Olivia C Dickson (51)

MA (Oxon), MSc (Lon), CDipAF

Committees: DLC audit, Investec plc audit, Investec Limited audit and DLC remuneration

Olivia is a non-executive director of Canada Life Limited, the senior independent director and chair of the audit committee of Invista Real Estate Investment Management Holdings plc and a trustee director and chair of the risk and assurance committee of the Mineworkers' Pension Scheme. Olivia is also a member of the Financial Reporting Council's board for actuarial standards, the Financial Services Authority's regulatory decisions committee and the Pensions Regulator's determinations panel. Most recently Olivia served as a non-executive director and chair of the risk and compliance committee of Aon Limited and prior to that as a senior adviser to the Financial Services Authority. Previously Olivia was a managing director at JP Morgan, where she served in a number of senior roles including head of European derivatives brokerage. While at JP Morgan, Olivia was a non-executive director and chair of the audit committee of the London International Financial Futures Exchange.

Current directorships: Canada Life Limited, Canada Life Group (UK) Limited, Canada Life Asset Management Limited, Invista Real Estate Investment Management Holdings plc, Invista Real Estate Investment Management Limited, Trustee of the Mineworkers' Pension Scheme Limited.

Bradley Fried (46)

BCom, CA(SA), MBA

Committees: Board risk and capital

Bradley joined Investec in 1999 and has held the positions of joint head of investment banking and chief executive of Investec Bank plc. He is on the audit committee of HM Treasury and is the chief executive in residence at Judge business school.

Current directorships: Investec Wealth & Investment Limited, Grovepoint Capital LLP and non-executive director of the Court of Bank of England.

Haruko Fukuda OBE (65)

MA (Cantab), DSc

Committees: Board risk and capital

Haruko was previously chief executive officer of the World Gold Council, and senior adviser at Lazard. She is former vice chairman of Nikko Europe plc and a partner of James Capel & Co and a former director of AB Volvo and of Foreign and Colonial Investment Trust plc.

Current directorships: Director of Aberdeen Asian Smaller Companies Investment Trust PLC. She is an adviser to Metro AG.

Non-executive directors (details as at the date of this report) (continued)

Ian R Kantor (65)

BSc (Eng), MBA

Current directorships: Insinger de Beaufort Holdings SA (in which Investec Limited indirectly holds an 8.6% interest), Investec Bank plc, Bank Insinger de Beaufort NV where he is chairman of the management board.

M Peter Malungani (54)

BCom, MAP, LDP

Committees: Board risk and capital

Peter is chairman and founder of Peu Group (Pty) Limited.

Current directorships: Phumelela Gaming and Leisure Limited (Chairman), Investec Bank Limited, Investec Asset Management Holdings (Pty) Limited, Peu Group (Pty) Limited and a number of Peu subsidiaries.

Peter RS Thomas (67)

CA(SA)

Committees: DLC audit, Investec plc audit, Investec Limited audit, board risk and capital, DLC nominations and directors' affairs, DLC social and ethics and global credit

Peter was the former managing director of The Unisec Group Limited.

Current directorships: Investec Bank Limited, various Investec companies, JCI Limited and various unlisted companies.

Audit committees' report to shareholders

Introduction

This report to the board and shareholders, on how the audit committees have discharged their duties, has been prepared in accordance with good governance principles.

Background

In terms of Investec's DLC structure, the board has mandated authority to the Investec plc audit committee and the Investec Limited audit committee to be the audit committees for those respective companies and their subsidiaries with each having their own regulatory requirements to meet. A DLC audit committee – which is a combined audit committee of Investec plc and Investec Limited – has responsibility to the board for matters common to both Investec plc and Investec Limited, and, in particular, the combined group financial statements and results.

The audit committees comply with all legal and regulatory requirements as necessary under both UK and South African legislation and listings rules, and apply the corporate governance principles for audit committees as required by both the UK Corporate Governance Code and King III. External auditors from both the UK and South Africa are represented and ensure that all accounting principles and standards, as required, are complied with when preparing the combined group financial statements.

The board has approved terms of reference for the audit committees which can be found on the Investec website. All responsibilities are covered in the audit committees' terms of reference.

The composition and membership, attendance at meetings and a summary of the role and responsibilities of the audit committees are summarised on pages 198 and 199 of the Investec group's 2012 annual report. During the year under review Sir David Prosser resigned from the committee following his appointment as joint chairman of the Investec group. The audit committee records its appreciation to him for his valuable contribution to the committee over many years.

The board recognises the important role of the audit committees as part of the risk management and corporate governance processes and procedures of the Investec group. In this regard the audit committees have oversight of:

- Financial reporting risks
- Internal financial risks
- Fraud and IT risks as they relate to financial reporting.

The board recognises the important role of the audit committees as part of the risk management and corporate governance processes and procedures of the Investec group.

Summary of conclusions reached by the audit committees for the year ended 31 March 2012

Following a review and meeting the requirements of each of the terms of reference, the individual and combined audit committees, to the best of my and our knowledge and belief, are satisfied that:

- The finance functions of both Investec plc and its subsidiaries and Investec Limited and its subsidiaries are adequately skilled, resourced and experienced
- The group finance director, GR Burger, has the appropriate expertise and experience to meet the responsibilities of the position
- The group's internal financial controls are effective and all material weaknesses in financial control have been identified and mitigated in due course
- The external auditors of both Investec plc and Investec Limited are, and remain, independent
- The external auditors perform their functions with the appropriate expertise, competence and experience.

In fulfilling their duties, the audit committees have:

- Reviewed and discussed the audited annual financial statements with the external auditors, the chief executive officer and the finance director
- Reviewed the adjustments resulting from external audit queries and accepted the unadjusted audit differences as they were not material
- Reviewed the quality of the financial reporting and disclosures
- Received and considered reports from the internal auditors
- Reviewed and overseen the integrated reporting process
- Considered and approved the annual internal audit plan
- Reviewed and considered representation by management on the going concern statement for the group and recommended the adoption of the going concern concept to the board.

The audit committees recommended the adoption of the integrated report to the board.

In this regard the audit committees:

- Considered all facts and risks that may impact on the integrity of the integrated report
- Reviewed and commented on the financial statements included in the integrated report
- Reviewed the disclosure of sustainability issues in the integrated report to ensure they are reliable and do not conflict with the financial information
- Reviewed the need to engage an external assurance provider on material sustainability issues, but recommended to the board that it was not necessary to engage an external assurance provider as Internal Audit was specifically tasked to provide a rigorous overview of the sustainability issues
- Engaged the external auditors to provide assurance on the integrated report.

The board subsequently approved the integrated report, including the financial statements, which will be open for approval at the forthcoming annual general meeting.

The following flow chart depicts the Investec group audit committees' structure and ambit of activities:

Audit committees' structure

Audit committees of Investec plc and Investec Limited | **DLC audit committee**

External auditors
- Planning/budget
- Conflict/independence
- Attest and non-attest fees
- Reports to regulators
- Management letter
- Quality of earnings (overs and unders schedule)
- Appointment/re-appointment

Compliance
- Planning/budget
- Resources
- High level reporting of non-compliance
- Monitoring of special projects
- Regulatory matters

Tax
- High level only

Internal auditors
- Planning/budget
- Resources
- Annual audit plan
- Charter
- Execution
- Reporting
- Special ad hoc work
- Review of high level reports
- Internal controls
- Sustainability report

Operational risk
- Fundamental internal controls
- Fraud and loss statistics
- Insurance coverage
- Corporate governance
  – (SA Banks Act requirements)
- Disaster recovery and business continuity
- Key staff issues

Finance
- Accounting policies
- Annual financial statements
  – Half-year results
  – Year-end results
- Production of audited financial statements of companies and subsidiaries
- Accounting for one-off transactions
- Accounting updates and conventions – IFRS
- Basel
- Reconciliations
- Regulatory reports
- Representation letters

Audit sub-committees
- Distil only major issues to audit committees

Audit compliance implementation forum
- High level reports

Information technology
- Status
- Major risks
- Change control
- Capacity management
- Security
- Staffing
- Projects
- Governance

Current risk review
- Chief executive officer
- Managing director
- Financial director

For each audit committee and audit sub-committee meeting a comprehensive meeting pack is prepared with written reports received from the finance, internal audit, operational risk, compliance and IT functions. Representatives from these functions attend the meetings by invitation and present on the significant matters included in their reports.

Reports on the risk and control environment of all business units and principal operating subsidiaries are made to one of the audit sub-committees, with major issues being escalated to the audit committees. At audit sub-committees, senior managers of the business units meet with the risk and control functions and provide input on the risk and control environment of the business units.

The audit and compliance implementation forums monitor and report on the implementation of recommendations and other matters that the relevant audit committee or audit sub-committee consider important and facilitate the timely understanding and escalation of, and response to, risk and control matters that require a response from management. When agreed implementation dates for remediation have not been met, the issues are escalated to ERRF for discussion and action plans are devised to hasten clearance of the identified weakness. At each audit committee meeting, the group chief executive officer, group managing director and group finance director provide an in-depth assessment of their current risk-related concerns and the procedures introduced by management to control or mitigate these risks.

Following the completion of all group audit committee meetings, the chairman provides a written report to the next meeting of the board of directors highlighting matters of which the audit committee believes the board should be aware.

The audit committees have approved the internal audit charter and annual audit plan. The heads of internal audit for both Investec plc and Investec Limited have free access to the chairman of the audit committees or any member of the audit committees and they attend all audit committee meetings by invitation.

Key risks addressed during the year under review

During the year under review, the following key risks were debated at all audit committee meetings:

- The process and procedures undertaken by senior management to review the impairment provisions and valuation techniques adopted in arriving at the carrying values of financial instruments, investments, etc
- The adequacy and appropriateness of liquidity throughout the group's operations
- The implementation of measures taken to further enhance group IT governance. In addition, the audit committee has had significant influence in ensuring that IT global management has assessed the controls over 'super users/privileged users' to ensure audit trails are monitored and controlled. One of the major risks facing all banking groups globally is that third parties often have direct access to banks' computer environment
- Adherence to key regulatory issues facing the group via strict compliance and the result of ongoing compliance monitoring procedures
- Specific emphasis has continued to be placed on processes to implement the new Companies Act in South Africa
- Assessing the internal control weaknesses identified by the assurance providers and ensuring appropriate steps taken within prescribed and specified time limits to mitigate and remedy such weaknesses.

With the assistance of internal audit, assisted by operational risk, we have received written combined assurance from the entire DLC group comprising all business units and assurance providers as well as support functions.

SE Abrahams
Chairman, audit committees

27 June 2012

Shareholder analysis

Investec ordinary shares

As at 31 March 2012 Investec Limited had 276.0 million ordinary shares in issue.

Spread of ordinary shareholders as at 31 March 2012

Investec Limited ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
3 609	1 to 500	40.6%	854 907	0.3%
1 762	501 – 1 000	19.8%	1 371 198	0.5%
2 142	1 001 – 5 000	24.1%	4 945 185	1.8%
423	5 001 – 10 000	4.8%	3 107 642	1.1%
565	10 001 – 50 000	6.3%	13 384 538	4.9%
147	50 001 – 100 000	1.7%	10 579 692	3.8%
244	100 001 and over	2.7%	241 777 059	87.6%
8 892		100.0%	276 020 221	100.0%

Shareholder classification as at 31 March 2012

	Investec Limited number of shares	% holding
Public*	251 888 039	91.3%
Non-public	24 132 182	8.7%
Non-executive directors of Investec Limited	300 825	0.1%
Executive directors of Investec Limited	7 252 146	2.6%
Investec staff share schemes	16 579 211	6.0%
Total	276 020 221	100.0%

* *As per the JSE Listings Requirements.*

Largest ordinary shareholders as at 31 March 2012

In accordance with the terms provided for in Section 140A of the South African Companies Act, 1973, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as disclosed below.

Investec Limited

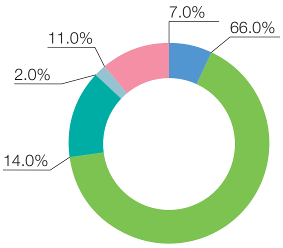
Shareholder analysis by manager group

		Number of shares	% holding
1.	Public Investment Corporation (ZA)	31 602 307	11.4%
2.	Old Mutual (UK and ZA)	18 914 873	6.9%
3.	Investec Staff Share Schemes (UK and ZA)	16 579 211	6.0%
4.	Entrepreneurial Development Trust (ZA)*	16 311 353	5.9%
5.	MMI Holdings (UK and ZA)	15 976 667	5.8%
6.	Sanlam Group (UK and ZA)	15 613 376	5.7%
7.	BlackRock Inc (UK and US)	11 147 152	4.0%
8.	Afena Capital (ZA)	9 845 728	3.6%
9.	Coronation Fund Managers (ZA)	7 225 511	2.6%
10.	Vanguard Group (UK and US)	6 732 575	2.4%
	Cumulative total	149 948 753	54.3%

The top 10 shareholders account for 54.3% of the total shareholding in Investec Limited. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated.

* *In November 2003, Investec Limited implemented an empowerment transaction in which empowerment partners and an employee share scheme acquired 25.1% of the equity shareholding in Investec Limited.*

Geographical holding by beneficial ordinary share owner as at 31 March 2012



Investec Limited

- UK
- South Africa
- USA and Canada
- Rest of Europe
- Other countries (including unknown)

Share statistics

Investec Limited ordinary shares in issue

For the year ended 31 March	2012	2011	2010	2009	2008	2007	2006
Closing market price per share (Rands)							
Year end	47.16	52.80	62.49	38.86	57.43	93.30	62.60
Highest	57.36	65.50	65.40	63.19	104.4	94.60	66.50
Lowest	42.00	49.49	37.51	27.20	50.90	59.06	34.10
Number of ordinary shares in issue (million)	276.0	272.8	269.8	268.4	234.3	227.7	220.0
Market capitalisation (R'million)[1]	41 232	42 768	46 299	27 715	37 766	56 848	37 121
Daily average volume of shares traded ('000)	1 033	794	1 068	1 168	841	620	478

1. *The JSE Limited have agreed to use the total number of shares in issue for the combined group, comprising Investec plc and Investec Limited, in calculating market capitalisation i.e. a total of 874.3 million shares in issue.*

Investec perpetual preference shares

Investec Limited and Investec Bank Limited have issued perpetual preference shares, the details of which can be found on page 174.

Spread of perpetual preference shareholders as at 31 March 2012

Investec Limited perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued preference share capital
710	1 to 500	13.8%	232 759	0.8%
1 346	501 – 1 000	26.1%	1 189 450	4.2%
2 255	1 001 – 5 000	43.7%	5 397 000	18.8%
462	5 001 – 10 000	9.0%	3 385 968	11.8%
331	10 001 – 50 000	6.4%	6 150 079	21.4%
18	50 001 – 100 000	0.3%	1 298 320	4.5%
35	100 001 and over	0.7%	11 066 282	38.5%
5 157		100.0%	28 719 858	100.0%

Investec Bank Limited perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued preference share capital
767	1 to 500	19.2%	228 987	1.5%
1 215	501 – 1 000	30.5%	1 095 635	7.1%
1 552	1 001 – 5 000	38.9%	3 732 978	24.1%
252	5 001 – 10 000	6.3%	1 865 606	12.1%
180	10 001 – 50 000	4.5%	3 585 056	23.2%
9	50 001 – 100 000	0.2%	650 345	4.2%
16	100 001 and over	0.4%	4 289 023	27.8%
3 991		100.0%	15 447 630	100.0%

Largest perpetual preference shareholders as at 31 March 2012

Shareholders holding beneficial interests in excess of 5% of the issued preference shares are as follows:

Investec Limited
Agulhas Nominees (Pty) Limited (Sanlam Private Investments) 5.6%

Investec Bank Limited
Agulhas Nominees (Pty) Limited (Sanlam Private Investments) 9.9%

Annual financial statements

Directors' responsibility statement

The annual financial statements and the group annual financial statements of Investec Limited, as set out on pages 112 to 185, are prepared to present the financial position, results and cash flows of Investec Limited and its directly owned subsidiaries in the manner required by the Companies Act of South Africa, as if Investec Limited were a standalone component of the dual listed companies structure of Investec Limited and Investec plc, as explained in the paragraph of the directors' report headed: Purpose and basis of preparation of financial statements, and are prepared in accordance with International Financial Reporting Standards on this basis.

The directors consider that in preparing the financial statements, the company and group have used appropriate accounting policies supported by reasonable and prudent judgement and estimates.

The financial statements of the company and group have been prepared on the going concern basis. The directors are of the opinion, based on their knowledge of the company and group, key processes in operation and specific enquiries, that adequate resources exist to support the company and group on a going concern basis over the next year.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements comply with the Companies Act of South Africa. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approval of group annual financial statements and company annual financial statements

The group annual financial statements and company annual financial statements of Investec Limited, as identified in the first paragraph, were approved by the board of directors on 27 June 2012 and signed on its behalf by:

Sir David Prosser
Joint chairman

Fani Titi
Joint chairman

Stephen Koseff
Chief executive officer

Declaration by the company secretary

In terms of section 88(2)(e) of the South African Companies Act No 71 of 2008, as amended (the Act), I hereby certify that, to the best of my knowledge and belief, Investec Limited has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2012, all such returns and notices as are required in terms of the Act and that all such returns and notices are true, correct and up to date.

Benita Coetsee
Company secretary, Investec Limited

27 June 2012

Independent auditors' report to the members of Investec Limited

We have audited the consolidated and separate annual financial statements of Investec Limited, which comprise, the balance sheets at 31 March 2012, the income statements, the statement of comprehensive income, the statement of changes in equity and cash flow statements for the year then ended, a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 112 to 185 and the specified disclosures within the risk management section that is marked as audited.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards, as if Investec Limited were a standalone component of the dual listed companies structure of Investec Limited and Investec plc, as explained in the paragraph of the directors' report headed: purpose and basis of preparation of financial statements. The directors' responsibility includes such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements are prepared to present, in all material respects, the consolidated and separate financial position of Investec Limited at 31 March 2012, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, as if Investec Limited were a standalone component of the dual listed companies structure of Investec Limited and Investec plc, as explained in the directors' report.

For an understanding of the combined consolidated financial position of the dual listed companies structure of Investec Limited and Investec plc at 31 March 2012, and their combined consolidated financial performance and combined consolidated cash flows for the year then ended, the user is referred to the combined consolidated financial statements contained in the 2012 annual integrated report of Investec Limited and Investec plc.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2012, we have read the company secretary's declaration and the report by the audit committee for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Ernst & Young Inc

Ernst & Young Inc.
Registered Auditors
Director – Farouk Mohideen
Chartered Accountant (SA)
Registered Auditor

27 June 2012

Wanderers Office Park
52 Corlett Drive
Illovo, Johannesburg

KPMG Inc.

KPMG Inc.
Registered Auditors
Director – Gavin De Lange
Chartered Accountant (SA)
Registered Auditor

27 June 2012

KPMG Crescent
85 Empire Road
Parktown, Johannesburg

Directors' report

Extended business review

We are an international specialist bank and asset manager that provides a diverse range of financial products and services to a niche client base in Southern Africa. Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

The operating financial review on pages 17 to 29 provides an overview of our strategic position, performance during the financial year and outlook for the business.

5

Authorised and issued share capital

Details of the share capital are set out in notes 40 and 41 to the financial statements.

During the year the following shares were issued:

- Allotment and issue on 15 April 2011 of 1 499 (one thousand four hundred and ninety nine) special convertible redeemable preference shares of R0.0002 at par
- Allotment and issue on 24 June 2011 of 3 183 553 (three million one hundred and eighty three thousand five hundred and fifty three) ordinary shares at R52.77 (R0.0002 par and premium of R52.7698 per share)
- Allotment and issue on 24 June 2011 of 5 199 150 (five million one hundred and ninety nine thousand one hundred and fifty) special convertible redeemable preference shares of R0.0002 each at par
- Allotment and issue on 6 July 2011 of 17 556 (seventeen thousand five hundred and fifty six) special convertible redeemable preference shares of R0.0002 each at par
- Allotment and issue on 11 July 2011 of 16 720 (sixteen thousand seven hundred and twenty) special convertible redeemable preference shares of R0.0002 each at par
- Allotment and issue on 13 July 2011 of 6 688 (six thousand six hundred and eighty eight) special convertible redeemable preference shares of R0.0002 each at par
- Allotment and issue on 21 July 2011 of 4 180 (four thousand one hundred and eighty) special convertible redeemable preference shares of R0.0002 each at par
- Allotment and issue on 2 August 2011 of 2 161 (two thousand one hundred and sixty one) special convertible redeemable preference shares of R0.0002 each at par
- Allotment and issue on 25 November 2011 of 565 010 (five hundred and sixty five thousand and ten) special convertible redeemable preference shares of R0.0002 each at par
- Allotment and issue on 22 December 2011 of 53 800 540 (fifty three million eight hundred thousand five hundred and forty) special convertible redeemable preference shares of R0.0002 each at par
- Allotment and issue on 1 February 2012 of 1 550 019 (one million five hundred and fifty thousand and nineteen) special convertible redeemable preference shares of R0.0002 at par

As at 31 March 2012, Investec Limited held 16 579 211 (sixteen million five hundred and seventy nine thousand two hundred and eleven) shares in treasury (2011: 23 178 288 (twenty three million one hundred and seventy eight thousand two hundred and eighty eight)).

Financial results

The results of Investec Limited are set out in the financial statements and accompanying notes for the year ended 31 March 2012. The preparation of the consolidated and company annual financial statements were supervised by the group risk and finance director, Glynn Burger.

Ordinary dividends

An interim dividend of 103.0 cents per ordinary share (2011: 90 cents) was declared to shareholders registered on 9 December 2011 and was paid on 20 December 2011.

The directors have proposed a final dividend of 121.0 cents per ordinary share (2011: 102.0 cents) to shareholders registered on 27 July 2012 to be paid on 6 August 2012. The final dividend is subject to the approval of members of Investec Limited at the annual general meeting scheduled for 2 August 2012.

Preference dividends

Non-redeemable, non-cumulative, non-participating preference shares

Preference dividend number 14 for the period 1 April 2011 to 30 September 2011, amounting to 315.86 cents per share, was declared to members holding preference shares registered on 2 December 2011 and was paid on 13 December 2011.

Preference dividend number 15 for the period 1 October 2011 to 31 March 2012, amounting to 315.86 cents per share, was declared to members holding preference shares registered on 15 June 2012 and will be paid on 26 June 2012.

Redeemable cumulative preference shares

Dividends amounting to R25 196 844 were paid on the redeemable cumulative preference shares.

Directors and secretaries

Details of directors and secretaries of Investec Limited are reflected on pages 100 to 102 of the annual report. Following best practice of the UK Corporate Governance Code (of which Investec plc is subject to and therefore impacts the DLC governance requirements), the entire board will offer itself for re-election at the 2012 annual general meeting.

Hugh Herman retired on 17 November 2011 and Sir David Prosser and Fani Titi were appointed as joint chairmen on the same date.

Directors and their interests

Directors' shareholdings and options to acquire shares are set out in the Investec group's 2012 annual report. The register of directors' interests contains full details of directors' shareholdings and options to acquire shares.

Corporate governance

The group's corporate governance board statement and governance framework are set out on pages 34 and 92 to 97.

Share incentive trusts

Details regarding options granted during the year are set out in the Investec group's 2012 annual report.

Audit committee

As allowed under the Companies Act No 71 of 2008, as amended, and the Banks Act No 96 of 1990, as amended, the audit committee of Investec Limited performs the necessary functions required on behalf of Investec Limited and its subsidiaries.

The audit committee comprising non-executive directors meets regularly with senior management, the external auditors, operational risk, internal audit, compliance and the finance division, to consider the nature and scope of the audit reviews and the effectiveness of our risk and control systems. Further details of the audit committee are set out in the Investec group's 2012 annual report. The report to the shareholders prepared by the chairman of the audit committee can be found on pages 103 to 105.

Social and ethics committee

As required under the Companies Act No 71 of 2008, as amended, the social and ethics committee of the group performs the necessary functions required on behalf of Investec Limited and its subsidiaries.

Auditors

Ernst & Young Inc. and KPMG Inc. have indicated their willingness to continue in office as auditors of Investec Limited.

A resolution to re-appoint them as auditors will be proposed at the next annual general meeting scheduled to take place on 2 August 2012.

Contracts

Refer to the Investec group's 2012 annual report.

Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on pages 164 and 168 to 169.

Major shareholders

The largest shareholders of Investec Limited are reflected on pages 106 to 108.

Special resolutions

At the annual general meeting held on 4 August 2011, the following special resolutions were passed in terms of which:

- A renewable authority was granted to Investec Limited and any of its subsidiaries to acquire its own ordinary and non-redeemable, non-cumulative, non-participating preference shares in terms of the provisions of the South African Companies Act No 71 of 2008
- A renewable authority was granted to Investec Limited to provide financial assistance in order to comply with the provisions of sections 44 and 45 of the South African Companies Act No 71 of 2008
- A renewable authority was granted to Investec Limited to approve directors' remuneration in order to comply with the provisions of sections 65(11)(h), 66(8) and 66(9) of the South African Companies Act No 71 of 2008.

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and comply with applicable South African law and International Financial Reporting Standards. These policies are set out on pages 123 to 134.

Purpose and basis of preparation of financial statements

Under the contractual arrangements implementing the dual listed companies (DLC) structure, Investec Limited and Investec plc, the latter a company incorporated in the United Kingdom, effectively form a single economic enterprise, in which the economic and voting rights of shareholders are equalised. In accordance with this structure the appropriate presentation under International Financial Reporting Standards is achieved by combining the results and the financial position of both companies using merger accounting principles. Those combined consolidated financial statements have been separately prepared.

The Companies Act of South Africa does not specifically envisage a reporting structure such as the DLC structure. The combined consolidated financial statements of Investec Limited and Investec plc are considered the statutory financial statements of Investec Limited and Investec plc. The attached annual financial statements and the group annual financial statements of Investec Limited are prepared to present the financial position, results and cash flows of Investec Limited and its directly owned subsidiaries in the manner required by the Companies Act of South Africa, in the absence of a DLC structure, and are prepared in accordance with International Financial Reporting Standards as if Investec Limited were a standalone component of the DLC structure, but with earnings per share disclosed in the DLC combined consolidated financial statements by virtue of the sharing arrangement. For an understanding of the financial position, results and cash flows of the Investec DLC structure the user is referred to the combined consolidated financial statements of Investec Limited and Investec plc.

Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 31 to 89. Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on pages 129 and 130 and in notes 21 and 50.

Creditor payment policy

The group's standard practice is to agree the terms of payment with suppliers at the time of contract and make payments within the agreed credit terms, subject to satisfactory performance.

Employees

Our policy is to recruit and promote on the basis of aptitude and ability, without discrimination of any kind. Applications for employment by disabled people are always considered bearing in mind the qualifications and abilities of the applicants. In the event of employees becoming disabled, every effort is made to ensure their continued employment. Our policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of our operations, and motivating staff involvement in our performance by means of employee share schemes.

We are committed to ensuring the health, safety and welfare of our employees and to providing and maintaining safe working conditions. We have health and safety policies in all regions of operation that cover all legislated requirements and additional benefits are provided for staff where possible. We constantly seek to improve both policies and the execution of health and safety standards in all our offices. This takes the form of staff education, regular fire drills and maintenance of an open door policy with regard to dialogue on the issue. Where appropriate the appointment of individuals responsible for various areas of health and safety is made.

Further information is provided in the Investec group's 2012 annual report.

Donations

During the year, Investec Limited made donations for charitable purposes, totalling R34.9 million.

Further information is provided in the Investec group's 2012 annual report.

Environment

We are committed to pursuing sound environmental policies in all aspects of our business and seek to encourage and promote good environmental practice among our employees and within the community in which we operate.

Further information can be found in the Investec group's 2012 annual report.

Post-balance sheet events

There are no material facts or circumstances which occurred between the balance sheet date and the date of this report that would require adjustment or disclosure in the financial statements.

Sir David Prosser Joint chairman	Fani Titi Joint chairman	Stephen Koseff Chief executive officer

27 June 2012

Income statements

For the year to 31 March R'million	Notes	Group		Company	
		2012	2011*	2012	2011*
Interest income		15 942	15 257	192	100
Interest expense		(11 857)	(11 481)	(25)	(27)
Net interest income		4 085	3 776	167	73
Fee and commission income	2	4 380	3 711	–	2
Fee and commission expense	2	(146)	(84)	–	–
Investment income	3	758	1 239	2 740	1 617
Trading income arising from					
– customer flow		270	308	–	–
– balance sheet management and other trading activities		183	278	–	–
Other operating income	4	54	188	–	–
Total operating income before impairment on loans and advances		9 584	9 416	2 907	1 692
Impairment losses on loans and advances	24/25	(824)	(860)	–	–
Operating income		8 760	8 556	2 907	1 692
Operating costs	5	(5 432)	(5 251)	(26)	(38)
Operating profit before impairment of goodwill		3 328	3 305	2 881	1 654
Impairment of goodwill	31	(34)	(77)	–	–
Profit before taxation		3 294	3 228	2 881	1 654
Taxation	7	(576)	(541)	(20)	(18)
Profit after taxation		2 718	2 687	2 861	1 636
(Earnings)/losses attributable to non-controlling interests		(4)	1	–	–
Earnings attributable to shareholders		2 714	2 688	2 861	1 636

* *Restated for reclassifications detailed in note 52.*

Statements of total comprehensive income

For the year to 31 March R'million	Notes	Group 2012	Group 2011	Company 2012	Company 2011
Profit after taxation		2 718	2 687	2 861	1 636
Other comprehensive income:					
Cash flow hedge movements taken directly to other comprehensive income	7	(352)	82	–	–
Gains on realisation of available-for-sale assets recycled to the income statement	7	(42)	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	7	69	30	–	–
Foreign currency adjustments on translating foreign operations		250	(141)	–	–
Total comprehensive income		2 643	2 658	2 861	1 636
Total comprehensive income/(loss) attributable to non-controlling interests		4	(1)	–	–
Total comprehensive income attributable to ordinary shareholders		2 639	2 659	2 861	1 636
Total comprehensive income		2 643	2 658	2 861	1 636

Balance sheets

At 31 March R'million	Notes	Group			Company		
		2012	2011*	2010*	2012	2011*	2010*
Assets							
Cash and balances at central banks	15	9 303	6 813	3 660	–	–	–
Loans and advances to banks	16	20 511	6 132	14 625	28	27	27
Non-sovereign and non-bank cash placements		7 885	5 829	6 455	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	17	5 570	11 615	4 676	–	–	–
Sovereign debt securities	18	29 699	29 172	18 749	–	–	–
Bank debt securities	19	27 695	18 169	13 706	–	–	–
Other debt securities	20	5 825	4 588	2 099	–	–	–
Derivative financial instruments	21	10 595	11 489	7 850	–	–	–
Securities arising from trading activities	22	3 284	2 872	5 432	–	–	–
Investment portfolio	23	7 316	7 411	6 136	41	97	288
Loans and advances to customers	24	122 621	114 450	110 910	–	1	1
Own originated loans and advances to customers securitised	25	6 126	6 334	7 245	–	–	–
Other loans and advances	24	669	784	1 022	–	–	–
Other securitised assets	25	1 712	1 952	2 751	–	–	–
Interests in associated undertakings	26	38	135	180	–	–	–
Deferred taxation assets	27	372	404	403	–	–	18
Other assets	28	6 286	5 238	7 628	149	1	1
Property and equipment	29	542	467	188	–	–	–
Investment properties	30	4 858	4 127	3 033	–	–	–
Goodwill	31	169	203	280	–	–	–
Intangible assets	32	97	111	98	–	–	–
Investments in subsidiaries	33	–	–	–	13 568	11 854	10 747
		271 173	238 295	217 126	13 786	11 980	11 082
Other financial instruments at fair value through profit or loss in respect of							
– Liabilities to customers	34	76 903	69 180	59 946	–	–	–
– Assets related to reinsurance contracts		–	–	32	–	–	–
		348 076	307 475	277 104	13 786	11 980	11 082
Liabilities							
Deposits by banks		13 933	10 956	9 554	–	–	–
Derivative financial instruments	21	8 570	10 495	7 144	–	–	–
Other trading liabilities	35	4 188	3 417	3 491	–	–	–
Repurchase agreements and cash collateral on securities lent	17	18 174	10 733	6 281	–	–	–
Customer accounts (deposits)		176 094	154 504	143 121	–	–	–
Debt securities in issue	36	4 389	5 142	5 950	400	400	400
Liabilities arising on securitisation of own originated loans and advances	25	6 256	6 310	7 748	–	–	–
Liabilities arising on securitisation of other assets	25	492	1 243	404	–	–	–
Current taxation liabilities	37	1 625	1 634	1 348	247	227	186
Deferred taxation liabilities	27	319	823	861	–	–	–
Other liabilities	38	5 263	5 390	7 292	56	59	72
		239 303	210 647	193 194	703	686	658
Liabilities to customers under investment contracts	34	76 880	69 152	59 899	–	–	–
Insurance liabilities, including unit-linked liabilities	34	23	28	47	–	–	–
Reinsured liabilities		–	–	32	–	–	–
		316 206	279 827	253 172	703	686	658
Subordinated liabilities	39	9 628	6 866	5 341	–	–	–
		325 834	286 693	258 513	703	686	658
Equity							
Ordinary share capital	40	1	1	1	1	1	1
Share premium	42	9 352	9 184	8 899	9 401	9 208	8 942
Treasury shares	43	(825)	(807)	(1 140)	–	–	–
Other reserves		(123)	(111)	(176)	62	62	62
Retained income		12 293	10 971	9 474	3 619	2 023	1 419
Shareholders' equity excluding non-controlling interests		20 698	19 238	17 058	13 083	11 294	10 424
Non-controlling interests	44	1 544	1 544	1 533	–	–	–
– Perpetual preferred securities issued by subsidiary		1 534	1 534	1 518	–	–	–
– Non-controlling interests in partially held subsidiaries		10	10	15	–	–	–
Total equity		22 242	20 782	18 591	13 083	11 294	10 424
Total liabilities and equity		348 076	307 475	277 104	13 786	11 980	11 082

* *Restated for reclassifications detailed in note 52.*

Cash flow statements

For the year to 31 March R'million	Notes	Group 2012	Group 2011	Company 2012	Company 2011
Cash flows from operating activities					
Operating profit adjusted for non-cash items	46	4 478	4 175	3 008	1 741
Taxation (paid)/received		(1 058)	(304)	–	41
(Increase)/decrease in operating assets	46	(30 385)	(28 808)	(91)	191
Increase/(decrease) in operating liabilities	46	36 427	26 687	(3)	(13)
Net cash inflow from operating activities		9 462	1 750	2 914	1 960
Cash flows from investing activities					
Cash flow on net disposal of associates		101	3	–	–
Cash flow on acquisition and disposal of property, equipment and intangible assets		(214)	(407)	–	–
Net cash outflow from investing activities		(113)	(404)	–	–
Cash flows from financing activities					
Dividends paid to ordinary shareholders		(1 169)	(864)	(1 210)	(914)
Dividends paid to other equity holders		(292)	(324)	(182)	(205)
Proceeds on issue of shares, net of related costs		168	169	193	266
Cash flow on net acquisition of treasury shares, net of related costs		(333)	(15)	–	–
Proceeds on issue of other equity instruments		–	132	–	–
Proceeds on subordinated debt raised		2 942	1 525	–	–
Reduction in subordinated debt		(180)	–	–	–
Net increase in subsidiaries and loans to group companies		–	–	(1 714)	(1 107)
Net cash inflow/(outflow) from financing activities		1 136	623	(2 913)	(1 960)
Effects of exchange rates on cash and cash equivalents		146	(21)	–	–
Net increase in cash and cash equivalents		10 631	1 948	1	–
Cash and cash equivalents at the beginning of the year		15 682	13 734	27	27
Cash and cash equivalents at the end of the year		26 313	15 682	28	27
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		9 303	6 813	–	–
On demand loans and advances to banks		9 125	3 040	28	27
Non-sovereign and non-bank cash placements		7 885	5 829	–	–
Cash and cash equivalents at the end of the year		26 313	15 682	28	27

Cash and cash equivalents are defined as including cash and balances at central banks, on demand loans and advances to banks and non-sovereign and non-bank cash placements (all of which have a maturity profile of less than three months).

Statements of changes in equity

R'million	Ordinary share capital	Share premium	Treasury shares
Group			
At 1 April 2010	1	8 899	(1 140)
Movement in reserves 1 April 2010 – 31 March 2011			
Profit after taxation	–	–	–
Cash flow hedge movements taken directly to other comprehensive income	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the year	–	–	–
Issue of ordinary shares	*	169	–
Issue of perpetual preference shares	–	116	–
Movement of treasury shares	–	–	(15)
Share-based payment adjustments	–	–	–
Transfer from share-based payments reserve to treasury shares	–	–	348
Transfer from retained income to regulatory general risk reserve	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends paid to perpetual preference shareholders	–	–	–
Dividends paid to non-controlling interests	–	–	–
At 31 March 2011	1	9 184	(807)
Movement in reserves 1 April 2011 – 31 March 2012			
Profit after taxation	–	–	–
Cash flow hedge movements taken directly to other comprehensive income	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–
Fair value movements on available-for-sale assets recycled to the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the year	–	–	–
Issue of ordinary shares	*	168	–
Movement of treasury shares	–	–	(333)
Share-based payment adjustments	–	–	–
Transfer from share-based payments reserve to treasury shares	–	–	315
Transfer from retained income to regulatory general risk reserve	–	–	–
Transfer from capital reserve account to retained income	–	–	–
Movement in non-controlling interests due to acquisitions and disposals	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends paid to perpetual preference shareholders	–	–	–
Dividends paid to non-controlling interests	–	–	–
At 31 March 2012	1	9 352	(825)

* *Less than R1 million.*

Other reserves								
Capital reserve account	Available-for-sale reserves	Regulatory general risk reserve	Foreign currency reserve	Cash flow hedge reserve	Retained income	Shareholders' equity excluding non-controlling interests	Non-controlling interests	Total equity
62	(37)	161	(379)	17	9 474	17 058	1 533	18 591
–	–	–	–	–	2 688	2 688	(1)	2 687
–	–	–	–	82	–	82	–	82
–	30	–	–	–	–	30	–	30
–	–	–	(141)	–		(141)	–	(141)
–	30	–	(141)	82	2 688	2 659	(1)	2 658
–	–	–	–	–	–	169	–	169
–	–	–	–	–	–	116	16	132
–	–	–	–	–	–	(15)	–	(15)
–	–	–	–	–	435	435	–	435
–	–	–	–	–	(348)	–	–	–
–	–	94	–	–	(94)	–	–	–
–	–	–	–	–	(864)	(864)	–	(864)
–	–	–	–	–	(320)	(320)	–	(320)
–	–	–	–	–	–	–	(4)	(4)
62	(7)	255	(520)	99	10 971	19 238	1 544	20 782
–	–	–	–	–	2 714	2 714	4	2 718
–	–	–	–	(352)	–	(352)	–	(352)
–	69	–	–	–	–	69	–	69
–	(42)	–	–	–	–	(42)	–	(42)
–	–	–	250	–	–	250	–	250
–	27	–	250	(352)	2 714	2 639	4	2 643
–	–	–	–	–	–	168	–	168
–	–	–	–	–	–	(333)	–	(333)
–	–	–	–	–	442	442	–	442
–	–	–	–	–	(315)	–	–	–
–	–	64	–	–	(64)	–	–	–
(1)	–	–	–	–	1	–	–	–
–	–	–	–	–	–	–	1	1
–	–	–	–	–	(1 169)	(1 169)	–	(1 169)
–	–	–	–	–	(287)	(287)	–	(287)
–	–	–	–	–	–	–	(5)	(5)
61	20	319	(270)	(253)	12 293	20 698	1 544	22 242

Statements of changes in equity (continued)

R'million	Ordinary share capital	Share premium	Capital reserve account	Retained income	Total
Company					
At 1 April 2010	1	8 942	62	1 419	10 424
Movement in reserves 1 April 2010 – 31 March 2011					
Profit after taxation	–	–	–	1 636	1 636
Total comprehensive income	–	–	–	1 636	1 636
Issue of ordinary shares	*	266	–	–	266
Share-based payment adjustments	–	–	–	87	87
Dividends paid to ordinary shareholders	–	–	–	(914)	(914)
Dividends paid to perpetual preference shareholders	–	–	–	(205)	(205)
At 31 March 2011	1	9 208	62	2 023	11 294
Movement in reserves 1 April 2011 – 31 March 2012					
Profit after taxation	–	–	–	2 861	2 861
Total comprehensive income	–	–	–	2 861	2 861
Issue of ordinary shares	*	193	–	–	193
Share-based payment adjustments	–	–	–	127	127
Dividends paid to ordinary shareholders	–	–	–	(1 210)	(1 210)
Dividends paid to perpetual preference shareholders	–	–	–	(182)	(182)
At 31 March 2012	1	9 401	62	3 619	13 083

* *Less than R1 million.*

Significant accounting policies

Basis of presentation

The group and company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The group and company financial statements are prepared in accordance with AC500 standards as issued by the Accounting Practices Board, in addition to IFRS and the Companies Act 71 of 2008, as is Investec Limited were a standalone component of the DLC structure as explained in the director's report but with earnings per share disclosed in the combined consolidated financial statements of Investec plc and Investec Limited by virtue of the sharing arrangement.

The group and company financial statements have been prepared on a historical cost basis, except for investment properties, available-for-sale investments, derivative financial instruments and financial assets and financial liabilities held at fair value through profit or loss or subject to hedge accounting, that have been measured at fair value.

Accounting policies applied are consistent with those of the prior year, except for the adoption of the following amendments:

- The group retrospectively adopted the amendments to IAS 24 Related Parties which related to the clarification of a definition of a related party (noting that an investor, its subsidiaries and interests in associated undertakings are related parties to each other). These amendments have had no material impact on the financial statements of the group.
- The following amendments and improvements to IFRS have been adopted retrospectively, with no impact to the financial statements of the group:
  - IFRS 7 Financial Instruments: Disclosures
  - IFRIC 14 Prepayments of a Minimum Funding Requirement
  - IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
  - IAS 1 Presentation of Financial Statements
  - IAS 27 Consolidated and Separate Financial Statements
  - IFRIC 13 Customer Loyalty Programmes

Presentation of information

Disclosure under IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital Disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management and corporate governance sections on pages 31 to 108.

Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report as included in the combined consolidated financial statements of Investec Limited and Investec plc.

Restatements and presentation of information

The group has revised its disclosure of business segments into three core (previously six) business lines, namely, Asset Management, Wealth & Investment and Specialist Banking. To align with information provided to the chief operating decision maker, the previously reported Private Banking, Capital Markets, Investment Banking, Property Activities and Group Services and Other divisions have been grouped under one core business division referred to as Specialist Banking. Associated with these changes, the group has refined the disclosures relating to the income statement and balance sheet as detailed in note 52 on pages 182 to 185. The group believes that these refinements provide greater clarity on the key income and balance sheet drivers of its business.

Basis of consolidation

All subsidiaries and special purpose entities (SPE's) in which the group holds more than one half of the voting rights or which it has the ability to control (either directly or in substance) are consolidated from the effective dates of acquisition (that is from when control exists) up to the effective dates of loss of control, except entities which are classified as non-current assets held-for-sale. Subsidiaries classified as non-current assets held-for-sale are consolidated in one line item as discontinued operations.

Investec sponsors the formation of SPE's for a variety of reasons. SPE's are consolidated when the substance of the relationship between the group and the SPE indicates that the SPE is controlled by the group. Investec performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between Investec and an SPE. Investec also holds investments, for example private equity investments, which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which the subsidiaries are consolidated or deconsolidated.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies, are treated as interests in associated undertakings. In the group accounts, interests in associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases.

For equity accounted associates, the consolidated financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the consolidated balance sheet at cost plus the post-acquisition changes in the group's share of the net assets of the associate. The consolidated balance sheet reflects the associated undertakings net of accumulated impairment losses.

In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

Subsidiaries are held in the company at the lower of cost (including loan advances to subsidiaries) and impaired value.

All intergroup balances, transactions and unrealised gains and losses within the group that do not reflect an impairment to the asset, are eliminated in full regarding subsidiaries and to the extent of the interest in an associate.

Segmental reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components, whose operating results are reviewed regularly by the board and for which discrete financial information is available.

The group's segmental reporting is presented in the form of a business analysis. The business analysis is presented in terms of the group's three principal business divisions, namely, Asset Management, Wealth & Investment and Specialist Banking.

For further detail on the group's segmental reporting basis refer to pages 6 and 7 of the divisional review section of the annual report.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed immediately in the income statement.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Any contingent consideration to be transferred by the group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration and amount recognised for non-controlling interest is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement as a gain in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Share-based payments to employees

The group and company engages in equity-settled share-based payments and in certain limited circumstances cash-settled share-based payments in respect of services received from employees.

The fair value of the services received in respect of equity-settled share-based payments is determined by reference to the fair value of the shares or share options on the date of grant to the employee. The cost of the share-based payment, together with a corresponding increase in equity, is recognised in the income statement over the period the service conditions of the grant are met with the amount changing according to the number of awards expected to vest. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group and company's best estimate of the number of equity instruments that will ultimately vest.

The liability, in respect of cash-settled share-based payments, is recognised at the current fair value at each balance sheet date based on an estimate of the number of instruments that will eventually vest, with the change in fair value being recognised in the income statement.

Subsequent to vesting the liability is measured at fair value, with gains and losses recognised in the income statement until such time as the liability is settled.

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Where the terms of an equity-settled award are modified, the minimum expense recognised in staff costs is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Foreign currency transactions and foreign operations

The presentation currency of the group is South African Rand, being the functional currency in which the group mainly operates, except Mauritius which is USD.

Foreign operations are subsidiaries, interests in the associated undertakings, joint ventures or branches of the group, the activities of which are based in a functional currency other than that of the reporting entity. The functional currency of group entities is determined based on the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency of the entity in which the transaction arises based on rates of exchange ruling at the date of the transaction. At each balance sheet date foreign currency items are translated as follows:

- Foreign currency monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains and losses recognised in the income statement
- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is recognised in the income statement upon disposal of the net investment
- Non-monetary items that are measured at historical cost are translated using the exchange rates ruling at the date of the transaction.

On consolidation, the results and financial position of foreign operations are translated into the presentation currency of the group as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- Income and expense items are translated at exchange rates ruling at the date of the transaction
- All resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve), which is recognised in the income statement on disposal of the foreign operation
- Cash flow items are translated at the exchange rates ruling at the date of the transaction.

Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the entity. Revenue related to provision of services is recognised when the related services are performed. Revenue is recognised at the fair value of the consideration received or receivable.

Interest income is recognised in the income statement using the effective interest method. Fees charged on lending transactions are included in the effective yield calculation to the extent that they form an integral part of the effective interest rate yield, but excludes those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged in lieu of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest method is based on the estimated life of the underlying instrument, and, where this estimate is not readily available, the contractual life.

Fee and commission income includes fees earned from providing advisory services as well as portfolio management and includes rental income from investment properties.

Investment income includes income, other than margin, from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains and losses arising from balance sheet management.

Trading income arising from balance sheet management activities, only includes income from balance sheet management desk.

Trading profits are shown net of the funding cost of the underlying positions and includes the unrealised profits on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in trading securities and valued accordingly.

Dividend income is recognised when the group and company's right to receive payment is established.

Funding costs allocated against revenue are disclosed in note 3.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income, income from interests in associated undertakings, income from assurance activities and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in fair value. All other transaction costs are recorded in the income statement immediately.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the time frame established by market convention are recorded at trade date.

Financial assets and liabilities held at fair value through profit or loss

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading and those instruments designated as held at fair value through profit or loss.

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are recorded at fair value on the balance sheet with changes in fair value recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- It eliminates or significantly reduces an inconsistent measurement or recognition that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group and company's key management personnel; and
- If a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial instruments with fixed or determinable payments and maturity dates which the group and company has the intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost using the effective interest method, less impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the income statement. The losses arising from impairment of such investments are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:

- Those that the group and company intends to trade in, which are classified as held-for-trading and those that the group and company designates as at fair value through profit or loss
- Those that the group and company designates as available-for-sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments.

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows through the expected life of the financial instrument, to the net carrying amount of the financial instrument. Included in the calculation of the effective interest rate is any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Losses arising from impairment of such investments are recognised in the income statement line 'impairment losses on loans and advances'.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity, or loans and receivables. They include strategically held equity instruments that are not interests in associated undertakings, joint ventures or subsidiaries of the group and company. Further, certain loans and receivables that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available-for-sale financial assets.

Financial assets classified as available-for-sale are measured at fair value on the balance sheet, with unrealised gains and losses recognised directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial assets are recognised in the income statement when the right of payment has been established.

If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in the income statement in the period in which the impairment is identified.

Impairments on available-for-sale equity instruments are not reversed once recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, limited to the impairment value previously recognised in the income statement.

Financial liabilities

Financial liabilities are classified as non-trading, held-for-trading or designated as held at fair value through profit or loss.

Non-trading liabilities are recorded at amortised cost applying the effective interest rate method.

Held-for-trading liabilities or liabilities designated as held at fair value through profit or loss, are measured at fair value.

All changes in the fair value of financial liabilities are recognised in the income statement.

Valuation of financial instruments

All financial instruments are initially recognised at fair value. On initial recognition, the fair value of a financial instrument is the transaction price unless it is deemed appropriate that the fair value of a financial instrument is more accurately determined by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. In circumstances where unobservable data has a significant impact on the valuation of a financial instrument, the entire difference between the model determined fair value and the transaction price is not recognised on initial recognition. The difference arising is recognised in the income statement over the life of the transaction, or when inputs become observable, or when the transaction is effectively closed out.

Subsequent to initial recognition the following financial instruments are measured at fair value:

- Fixed maturity securities classified as trading, held at fair value through profit or loss and available-for-sale
- Equity securities
- Private equity investments
- Derivative positions
- Loans and advances designated as held at fair value through profit or loss
- Loans and advances designated as available-for-sale
- Financial liabilities classified as trading or designated as held at fair value through profit or loss.

Subsequent to initial recognition, the fair value of financial instruments quoted in an active market is based on published price quotations.

Where market prices are not available, fair value is determined by discounting the expected cash flows, using market interest rates taking into account the credit quality and duration of the investment. In certain instances model pricing may be used to determine fair values. For private equity investments that are not publicly traded, management uses comparisons to similar listed companies, relevant third party arms' length transactions and other data specific to the investment.

'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement. In cases where fair value is determined using the data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the group and company would not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at least at each balance sheet reporting date.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the group recognises a collective impairment allowance at a central level that takes into account macroeconomic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

Impairments are credited to an allowance account which is carried against the carrying value of financial assets. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the group and company.

An allowance for impairment is only reversed when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement.

The impairment is calculated as the difference between the carrying value of the asset and the expected cash flows (including net proceeds on realisation of collateral) discounted at the original effective rate. Impairments of financial assets held at amortised cost are recognised in the income statement.

To cater for any shortfall between regulatory provision requirements (in the respective jurisdictions) and impairments based on the principles above, a transfer is made from distributable to non-distributable reserves, being the regulatory general risk reserve. The non-distributable regulatory risk reserve ensures that minimum regulatory provisioning requirements are maintained.

Derecognition of financial assets and liabilities

A financial asset or a portion thereof, is derecognised when the group and company's rights to cash flows has expired or when the group and company has transferred its rights to cash flows relating to the financial assets and either (a) the group and company has transferred substantially all the risks and rewards associated with the financial assets or (b) the group and company has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the asset.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

The group may reclassify, in certain circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. It may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Derivative instruments

All derivative instruments of the group and company are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a currently enforceable legal right to offset exists.

Derivative positions are entered into either for trading purposes or as part of the group and company's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits and losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed below).

Derivative instruments transacted as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Hedge accounting

The group and company applies either fair value or cash flow hedge or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group and company ensures that all of the following conditions are met:

- At inception of the hedge the group and company formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument relating to the effective portion is initially recognised directly in other comprehensive income in the cash flow hedge reserve and is included in the initial cost of any asset/liability recognised or in all other cases released to the income statement when the hedged firm commitment or forecasted transaction affects net profit. If the forecast transaction or firm commitment is no longer expected to occur, the balance included in other comprehensive income is reclassified to the income statement immediately and recognised in trading income from balance sheet management and other trading activities.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge, is initially recognised in other comprehensive income and is released to the income statement in the same period during which the relevant financial asset or liability affects the income statement. Any ineffective portion of the hedge is immediately recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation including a hedge of a monetary item that is accounted for as part of the net investment are accounted for in a way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedge item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a standalone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and an enforceable legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the group and company are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments issued by the group and company are classified as equity where they confer on the holder a residual interest in the group and company, and the group and company has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments issued by subsidiaries of Investec Limited are recorded as non-controlling interests on the balance sheet.

Equity instruments are initially measured net of directly attributable issue costs.

Treasury shares represent issued equity repurchased by the group which has not been cancelled. Treasury shares are deducted from shareholders' equity and represent the purchase consideration, including directly attributable costs. Where treasury shares are subsequently sold or reissued, net proceeds received are included in shareholders' equity.

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved by Investec Limited shareholders.

Sale and repurchase agreements (including securities borrowing and lending)

Where securities are sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lender's return, they remain on balance sheet. Proceeds received are recorded as a liability on balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing transactions that are not cash collateralised are not included in the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement all changes in the balance sheet carrying value are recognised in the income statement.

Instalment credit, leases and rental agreements

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a financial lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where Investec is the lessor and included in liabilities where Investec is the lessee. Finance charges on finance leases and instalment credit transactions are credited or debited to income in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals (if any) are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs that the group and company would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20% – 33%
- Motor vehicles 20% – 25%
- Furniture and fittings 10% – 20%
- Freehold buildings 2%
- Leasehold improvements*

* *Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease.*

No depreciation is provided on freehold land, however, similar to other property-related assets, it is subject to impairment testing when deemed necessary.

Routine servicing and maintenance of assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment property

Properties held by the group which are held for capital appreciation or rental yield are classified as investment properties. Investment properties are carried on balance sheet at fair value, with fair value gains and losses recognised in the income statement under ‘investment income’.

Fair value of investment property is calculated by taking into account the expected rental stream associated with the property, and is supported by market evidence.

Dealing properties

Dealing properties are carried at the lower of cost and net realisable value.

Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

For intangible assets with a finite life, amortisation is provided on the depreciable amount of each intangible asset on a straight-line basis over the anticipated useful life of the asset (currently three to eight years). The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, which the group and company would currently obtain from the disposal of an intangible asset in similar age and condition as expected at the end of its useful life.

Impairment of non-financial assets

At each balance sheet date the group and company reviews the carrying value of non-financial assets, other than investment property and deferred tax assets for indication of impairment. The recoverable amount, being the higher of fair value less cost to sell and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses is recognised in income in the period in which the reversal is identified, to the extent that the asset is not revalued to a carrying value that would have been calculated without impairment.

Trust and fiduciary activities

The group and company acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the group and company, they are not reflected on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current taxation payable is provided on the amount expected to be payable on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided using the balance sheet method on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Insurance contracts

Insurance contracts are those contracts in which the group and company assumes significant insurance risk. The deposit components of insurance contracts are unbundled and accounted for separately.

Insurance premiums are recognised in income in the period in which the group and company is entitled to the premium. Insurance claims are recognised in the income statement in the period in which a contractual obligation arises for the group and company to make payment under an insurance contract.

Reinsurance assets and liabilities and associated premiums/claims are not offset in the income statement or balance sheet.

Insurance liabilities are measured at their actuarial values, and are tested for adequacy on an annual basis. Any deficiency identified is recognised in the income statement.

Insurance income is included in other operating income.

Employee benefits

The group and company operate various defined contribution schemes.

In respect of the defined contribution scheme all employer contributions are charged to income as incurred, in accordance with the rules of the scheme, and included under staff costs.

The group and company has no liabilities for other post-retirement benefits.

Borrowing costs

Borrowing costs in respect of property developments that take a substantial period of time to develop for sale are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount and are recognised as soon as the group and company has created a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event. Expenses related to provisions are recognised in the income statement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued but not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these financial statements. The group intends to comply with these standards from the effective dates.

New standards

IFRS 10 Consolidated Financial Statements

The standard replaces consolidation principles contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Special Purpose Entities. The standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard is retrospectively effective for the group for the year commencing 1 April 2013, and EU endorsement is expected before the effective date. The impact of this standard is currently under evaluation.

IFRS 11 Joint Arrangements

The standard replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The key change is to require all joint ventures to be equity-accounted and thus removing the option to proportionately consolidate. The standard is retrospectively effective for the group for the year commencing 1 April 2014, and EU endorsement is expected before the effective date. The group does not expect any changes to the accounting policies of the group arising from this standard.

IFRS 12 Disclosure of Interests in Other Entities

The standard requires disclosure of the significant judgements and assumptions made in determining the nature of interests in subsidiaries, joint ventures and interest in associated undertakings and the interest that non-controlling interests have in the group's activities and cash flows. The standard further provides disclosure requirements relating to consolidated and unconsolidated structured entities that the group is associated with. The standard is retrospectively effective for the group for the year commencing 1 April 2014, and EU endorsement is expected before the effective date. The impact of this standard is currently under evaluation.

IFRS 13 Fair Value Measurement

The standard defines fair value (being a market-based measurement), sets out in a single IFRS a framework for measuring fair value and requires extensive disclosure about fair value measurements, inclusive of non-financial instruments that are subject to fair value measurement. The standard is prospectively effective for the group for the year commencing 1 April 2014, and EU endorsement is expected before the effective date. The impact of this standard is currently under evaluation.

IFRS 9 Financial Instruments

IFRS 9: Financial Instruments will replace certain key elements of IAS 39 when issued. The three key elements being drafted are:

- Classification and measurement of financial assets and financial liabilities – the standard requires that all financial assets be classified as either held at fair value or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows held in order to collect contractual cash flows and that the cash flows solely arise from payment of principal and interest. The standard further provides that gains and losses on assets held at fair value are measured through the income statement unless the entity has elected to present gains and losses on non-trading equity investments (individually elected) directly through comprehensive income. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk is taken directly to other comprehensive income without recycling. There are current deliberations which may result in limited modifications to IFRS 9 relating to classification and measurement.
- Impairment methodology – the key change is related to a shift from an incurred loss to an expected loss impairment methodology. This element is subject to continued deliberation with expected amendments to IFRS 9 in 2012
- Hedge accounting – this is subject to deliberation and an exposure draft is expected in 2012.

The standard is effective for the group for the year commencing 1 April 2015, and does not require the restatement to comparative-period financial statements upon initial application. The EU have highlighted that they will not endorse IFRS 9 until a complete standard is issued.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7)

These amendments require additional disclosures which the group will be in a position to provide. The amendments are effective for the year commencing 1 April 2013.

There are other proposed amendments which do not have a material impact to the financial statements and thus have not been highlighted or discussed above.

Key management assumptions

In preparation of the financial statements the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments in the private equity and direct investments portfolios. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility. Details of unlisted investments can be found in note 23 with further analysis contained in the risk management section on pages 58 to 60
- Valuation of investment properties is performed twice annually by directors that are qualified valuators. The valuation is performed by capitalising the budgeted net income of a property at the market-related yield applicable at the time. Refer to note 30 for the carrying value of investment property with further analysis contained in the risk management section on pages 58 to 60
- The determination of impairments against assets that are carried at amortised cost and impairments relating to available-for-sale financial assets involves the assessment of future cash flows which is judgemental in nature. Refer to pages 34 to 57 in the risk management section for further analysis on impairments
- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group recognises liabilities for taxation based on estimates of levels of taxation expected to be payable, taking into consideration expert external advice where appropriate. The final resolution may result in different amounts of cash flows to those initially provided and any necessary adjustments are taken into consideration in the period in which they are identified
- Determination of interest income and interest expense using the effective interest method involves judgement in determining the timing and extent of future cash flows.

Notes to the annual financial statements

For the year to 31 March R'million	Asset Management	Wealth & Investment	Specialist Banking	Total
1. Combined consolidated segmental analysis				
Group				
Business analysis				
2012				
Net interest income	53	17	4 015	4 085
Fee and commission income	1 960	653	1 767	4 380
Fee and commission expense	–	(38)	(108)	(146)
Investment income	–	–	758	758
Trading income arising from				
– customer flow	–	6	264	270
– balance sheet management and other trading activities	4	1	178	183
Other operating income	30	–	24	54
Total operating income before impairment on loans and advances	2 047	639	6 898	9 584
Impairment losses on loans and advances	–	–	(824)	(824)
Operating income	2 047	639	6 074	8 760
Operating costs	(1 164)	(457)	(3 811)	(5 432)
Operating profit before impairment of goodwill	883	182	2 263	3 328
Impairment of goodwill	(34)	–	–	(34)
Profit before taxation	849	182	2 263	3 294
Cost to income ratio	56.9%	71.5%	55.2%	56.7%
Total assets (excluding assurance assets)	1 986	4 426	264 761	271 173
2011				
Net interest income	36	19	3 721	3 776
Fee and commission income	1 785	598	1 328	3 711
Fee and commission expense	–	(19)	(65)	(84)
Investment income	–	–	1 239	1 239
Trading income arising from				
– customer flow	–	5	303	308
– balance sheet management and other trading activities	–	–	278	278
Other operating income	25	–	163	188
Total operating income before impairment on loans and advances	1 846	603	6 967	9 416
Impairment losses on loans and advances	–	–	(860)	(860)
Operating income	1 846	603	6 107	8 556
Operating costs	(1 014)	(429)	(3 808)	(5 251)
Operating profit before impairment of goodwill	832	174	2 299	3 305
Impairment of goodwill	(77)	–	–	(77)
Profit before taxation	755	174	2 299	3 228
Cost to income ratio	54.9%	71.1%	54.7%	55.8%
Total assets (excluding assurance assets)	2 005	4 130	232 160	238 295

A further analysis of business line operating profit before goodwill, non-operating items and taxation is shown below:

For the year to 31 March R'million	2012	2011
1. Combined consolidated segmental analysis (continued)		
Asset Management	883	832
Wealth & Investment	182	174
Specialist Banking	2 263	2 299
Property activities	211	448
Private Banking activities	363	31
Corporate Advisory and Investment activities		
Corporate finance	109	81
Institutional research, sales and trading	(92)	(57)
Principal investments	413	712
	430	736
Corporate and Institutional Banking activities	1 224	1 011
Group Services and Other activities		
International trade finance	88	77
Central funding	352	430
Central costs	(405)	(434)
	35	73
Total	3 328	3 305

The company's activities mainly comprise central funding activities within the Specialist Banking segment.

Net assets by class of business is not disclosed as the directors do not view it to be meaningful to provide the information by class of business since the economic capital of certain significant businesses of the group is not held in, or allocated to, these businesses, but is centrally held.

No geographical analysis has been presented as the group only operates in one geographical segment, namely Southern Africa.

For the year to 31 March R'million	Group		Company	
	2012	2011	2012	2011
2. Fees and commissions				
Fund management fees/fees for assets under management	2 237	2 048	–	–
Private client transactional fees	769	899	–	–
Corporate and institutional transactional services	1 374	764	–	2
Fee and commission income	4 380	3 711	–	2
Fee and commission expense	(146)	(84)	–	–
Net fees and commissions	4 234	3 627	–	2

Fees and commissions from trust and fiduciary activities amounts to R19.9 million (2011: R19.4 million) and is included in private client transactional fees.

The following table analyses investment income generated by the asset portfolio shown on the balance sheet:

For the year to 31 March 2012 R'million	Investment portfolio* (listed and unlisted equities)	Other debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
3. Investment income					
Group					
2012					
Realised	562	7	(39)	–	530
Unrealised	(238)	55	272	(70)	19
Dividend income	397	(1)	1	–	397
Funding costs	(188)	–	–	–	(188)
	533	61	234	(70)	758
2011					
Realised	298	38	(9)	–	327
Unrealised	130	(24)	610	–	716
Dividend income	408	–	7	–	415
Funding costs	(175)	(1)	(43)	–	(219)
	661	13	565	–	1 239
Company					
2012					
Realised	(37)	–	–	–	(37)
Unrealised	(28)	–	–	–	(28)
Dividend income	2 805	–	–	–	2 805
	2 740	–	–	–	2 740
2011					
Unrealised	(3)	–	–	–	(3)
Dividend income	1 620	–	–	–	1 620
	1 617	–	–	–	1 617

* *Including embedded derivatives (warrants and profit shares).*

For the year to 31 March R'million	Group 2012	Group 2011
4. Other operating income		
Rental income from properties	3	15
Gains on realisation of properties	11	14
Operating income of non-core businesses	30	30
Operating loss from associates	(1)	(17)
Assurance income	11	146
	54	188

For the year to 31 March R'million	Group		Company	
	2012	2011	2012	2011
5. Operating costs				
Staff costs	3 583	3 477	24	37
– Salaries and wages (including directors' remuneration)^	2 965	2 862		–
– Share-based payment expense	442	447	24	37
– Social security costs	26	29	–	–
– Pensions and provident fund contributions	150	139	–	–
Premises (excluding depreciation)	418	423	–	–
Equipment (excluding depreciation)	309	331	–	–
Business expenses*	729	708	2	1
Marketing expenses	238	197	–	–
Depreciation, amortisation and impairment of property, equipment and intangibles	155	115	–	–
	5 432	5 251	26	38
The following amounts were paid to the auditors:				
Audit fees	42	40	5	4
Other services	1	2	–	–
	43	42	5	4
Audit fees by audit firm				
Ernst & Young Inc.	22	20	5	4
KPMG Inc.	21	20	–	–
Other	–	2	–	–
	43	42	5	4
Minimum operating lease payments recognised in operating costs	322	314	–	–

^ *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report in the combined consolidated financial statements of Investec plc and Investec Limited.*

* *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscription costs.*

6. Share-based payments

The group operates share option and share purchase schemes for employees, which are on an equity-settled basis. The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group. Further information on the group share options and long-term incentive plans are provided in the remuneration report of the combined consolidated financial statements of Investec plc and Investec Limited and on our website.

For the year to 31 March R'million	Asset Management	Wealth & Investment	Specialist Banking	Total group
Equity-settled share-based payments expense charged to income statement (included in operating costs)				
2012	55	34	353	442
2011	36	33	378	447

	Group			
	2012		2011	
Details of options outstanding during the year	Number of share options	Weighted average exercise price R	Number of share options	Weighted average exercise price R
Outstanding at the beginning of the year	42 984 422	0.74	33 651 198	1.98
Granted during the year	9 020 438	–	17 903 599	–
Exercised during the year*	(7 223 129)	4.38	(7 013 570)	4.42
Expired during the year	(2 357 838)	–	(1 556 805)	2.59
Outstanding at the end of the year	42 423 893	–	42 984 422	0.74
Exercisable at the end of the year	1 011 438	–	1 115 836	28.35

* *The weighted average share price during the year was R49.26 (2011: R56.95).*

At 31 March	Group 2012	Group 2011
6. Share-based payments (continued)		
The exercise price range and weighted average remaining contractual life for the options outstanding, were as follows:		
Options with strike prices		
Exercise price range	n/a	R20.28 – R57.60
Weighted average remaining contractual life	n/a	0.53 years
Weighted average fair value of options granted at measurement date	R37.25	R39.21
Long-term incentive grants with no strike price		
Weighted average remaining contractual life	2.99 years	3.32 years
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	R44.00 – R56.29	R52.55 – R55.40
– Exercise price	Rnil	Rnil
– Expected volatility	30%	30% – 36%
– Option life	5 years	5 years
– Expected dividend yield	3.87% – 5.33%	2.85% – 4.61%
– Average risk-free rate	6.44% – 7.58%	6.75% – 7.31%

Expected volatility was determined based on the implied volatility levels quoted by the equity derivatives trading desk. The expected volatility is based on the respective share price movement over the last six months, but also includes an element of forward expectation.

The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

For information on the share options granted to directors, refer to the remuneration report in the combined consolidated financial statements of Investec plc and Investec Limited.

For the year to 31 March R'million	Group		Company	
	2012	2011	2012	2011
7. Taxation				
Income statement taxation charge				
South Africa				
– Current taxation	967	546	20	–
– in respect of current year	967	707	20	–
– in respect of prior year adjustments	–	(161)	–	–
– Capital gains taxation	29	11	–	–
– Deferred taxation	(434)	(42)	–	18
Total South African taxation	562	515	20	18
Foreign taxation				
– Mauritius	7	12	–	–
– Botswana	4	4	–	–
Total foreign taxation	11	16	–	–
Taxation on income	573	531	20	18
Secondary Taxation on Companies	3	10	–	–
Total taxation charge as per income statement	576	541	20	18
Tax rate reconciliation:				
Profit before taxation as per income statement	3 294	3 228	2 881	1 654
Total taxation charge as per income statement	576	541	20	18
Less: Secondary Taxation on Companies	(3)	(10)	–	–
Total taxation on income	573	531	20	18
Effective rate of taxation	17.4%	16.4%	0.7%	1.1%
The standard rate of South African normal taxation has been affected by:				
– Dividend income	8.3%	11.4%	27.3%	27.4%
– Foreign earnings*	0.8%	(1.5%)	–	–
– Impairment of goodwill	(0.3%)	(0.4%)	–	–
– Prior year taxation adjustments	0.4%	4.9%	–	–
– Assessed losses utilised	1.9%	1.0%	–	–
– Other permanent differences	(0.5%)	(3.8%)	–	(0.5%)
	28.0%	28.0%	28.0%	28.0%

* *Includes the effect of cumulative tax losses and other permanent differences relating to foreign subsidiaries.*

For the year to 31 March R'million	Group 2012	Group 2011
7. Taxation (continued)		
Other comprehensive income taxation effects		
Cash flow hedge movements taken directly to other comprehensive income	(352)	82
– Pre-taxation	(363)	114
– Income taxation effect	11	(32)
Gains on realisation of available-for-sale assets recycled to the income statement	(42)	–
– Pre-taxation	(58)	–
– Income taxation effect	16	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	69	30
– Pre-taxation	96	39
– Income taxation effect	(27)	(9)

	Group				Company			
	2012		2011		2012		2011	
For the year to 31 March	Cents per share	Total R'million	Cents per share	Total R'million	Cents per share	Total R'million	Cents per share	Total R'million
8. Dividends								
Ordinary dividend								
Final dividend in prior year*	102.00	568	89.00	431	102.00	586	89.00	456
Interim dividend for current year*	103.00	601	90.00	433	103.00	624	90.00	458
Total dividend attributable to ordinary shareholders recognised in current financial year	205.00	1 169	179.00	864	205.00	1 210	179.00	914

* *This includes the dividend paid by Investec Limited on DAS share equivalent for South African resident shareholders of Investec plc.*

The directors have proposed a final dividend in respect of the financial year ended 31 March 2012 of 121 cents (2011: 102 cents) per ordinary share. The final dividend will be payable to shareholders on the register at the close of business on Friday, 27 July 2012. The annual general meeting at which the proposed dividend will be considered for approval is scheduled to take place on 2 August 2012.

For the year to 31 March	Group				Company			
	2012		2011		2012		2011	
	Cents per share	Total R'million	Cents per share	Total R'million	Cents per share	Total R'million	Cents per share	Total R'million
8. Dividends (continued)								
Perpetual preference dividend								
Final dividend in prior year*	660.45	145	757.97	163	318.84	91	365.92	103
Interim dividend for current year*	654.28	142	722.82	157	315.86	91	348.95	102
Total dividend attributable to perpetual preference shareholder recognised in current financial year	1 314.73	287	1 480.79	320	634.70	182	714.87	205

* *This includes the dividend paid by Investec Limited on DAS share equivalent for South African resident shareholders of Investec plc.*

The directors have declared a final dividend in respect of the financial year ended 31 March 2012 of 315.86 cents (2011: 318.84 cents) per Investec Limited perpetual preference share and 338.42 cents (2011: 341.61 cents) per Investec Bank Limited perpetual preference share. The final dividend will be payable to shareholders on the register at the close of business on Friday, 15 June 2012.

For the year to 31 March R'million	Group		Company	
	2012	2011	2012	2011
9. Headline earnings				
Headline earnings attributable to ordinary shareholders				
Calculation of headline earnings				
Earnings attributable to shareholders	2 714	2 688	2 861	1 636
Dividends paid to perpetual preference shareholders	(287)	(320)	(182)	(205)
Earnings attributable to ordinary shareholders	2 427	2 368	2 679	1 431
Headline adjustments:	(35)	(244)	–	–
Goodwill impairment	34	77	–	–
Revaluation of investment properties, net of taxation^	(27)	(346)	–	–
Impairment of associate	–	25	–	–
Gain on disposal of available-for-sale instruments, net of taxation^	(42)	–	–	–
Headline earnings attributable to ordinary shareholders	2 392	2 124	2 679	1 431

^ *Taxation on headline earnings adjustments amounted to R26.9 million (2011: R134.6 million), with no impact on earnings attributable to non-controlling interests.*

For information on the earnings per share of the combined consolidated Investec plc and Investec Limited entities, refer to the notes to the financial statements in the combined consolidated financial statements of Investec plc and Investec Limited.

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
10. Analysis of income and impairments by category of financial instrument		
Group		
2012		
Net interest income	698	2 293
Fee and commission income	24	50
Fee and commission expense	(4)	–
Investment income	–	539
Trading income arising from		
– customer flow	270	–
– balance sheet management and other trading activities	149	(44)
Other operating income	–	43
Total operating income before impairment on loans and advances	1 137	2 881
Impairment losses on loans and advances	–	–
Operating income	1 137	2 881
2011		
Net interest income	844	2 057
Fee and commission income	212	31
Fee and commission expense	–	(1)
Investment income	–	1 058
Trading income arising from		
– customer flow	308	–
– balance sheet management and other trading activities	418	(162)
Other operating income	–	170
Total operating income before impairment on loans and advances	1 782	3 153
Impairment losses on loans and advances	–	–
Operating income	1 782	3 153
Company		
2012		
Net interest income	–	–
Investment income	–	(28)
Total operating income before impairment on loans and advances	–	(28)
2011		
Net interest income	–	–
Fee and commission income	–	–
Investment income	–	(3)
Total operating income before impairment on loans and advances	–	(3)

Included in income from instruments at fair value through profit or loss is funding costs of R1.225 billion (2011: R1.135 billion).

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
998	11 558	374	(11 863)	–	27	4 085
5	1 203	–	–	441	2 657	4 380
–	(64)	–	(20)	–	(58)	(146)
–	9	58	(70)	222	–	758
–	–	–	–	–	–	270
–	76	–	–	2	–	183
–	3	–	–	8	–	54
1 003	12 785	432	(11 953)	673	2 626	9 584
–	(824)	–	–	–	–	(824)
1 003	11 961	432	(11 953)	673	2 626	8 760
215	11 532	121	(11 013)	–	20	3 776
–	438	–	(6)	212	2 824	3 711
–	(36)	–	(2)	–	(45)	(84)
(9)	(30)	–	–	159	61	1 239
–	–	–	–	–	–	308
–	37	–	–	(15)	–	278
–	1	–	–	17	–	188
206	11 942	121	(11 021)	373	2 860	9 416
–	(860)	–	–	–	–	(860)
206	11 082	121	(11 021)	373	2 860	8 556
–	167	–	–	–	–	167
–	–	–	–	2 768	–	2 740
–	167	–	–	2 768	–	2 907
–	73	–	–	–	–	73
–	2	–	–	–	–	2
–	–	–	–	1 620	–	1 617
–	75	–	–	1 620	–	1 692

At 31 March R'million	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale
11. Analysis of financial assets and liabilities by measurement basis			
Group			
2012			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	759	–
Non-sovereign and non-bank cash placements	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 091	–	–
Sovereign debt securities	–	23 106	4 559
Bank debt securities	13 132	149	1 241
Other debt securities	–	624	302
Derivative financial instruments*	10 595	–	–
Securities arising from trading activities	3 284	–	–
Investment portfolio	–	7 290	26
Loans and advances to customers	–	14 820	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	335	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	164	327	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	32 266	47 410	6 128
Financial instruments at fair value through profit or loss in respect of			
– Liabilities to customers	–	–	–
	32 266	47 410	6 128
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	8 570	–	–
Other trading liabilities	4 188	–	–
Repurchase agreements and cash collateral on securities lent	3 817	–	–
Customer accounts (deposits)	–	6 748	–
Debt securities in issue	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	492	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	340	323	–
	16 915	7 563	–
Liabilities to customers under investment contracts	–	–	–
Insurance liabilities, including unit-linked liabilities	–	–	–
	16 915	7 563	–
Subordinated liabilities	–	–	–
	16 915	7 563	–

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges. For more information refer to note 50.*

	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Insurance related	Non-financial instruments	Total
	–	–	9 303	–	9 303	–	–	9 303
	759	–	19 752	–	19 752	–	–	20 511
	–	–	7 885	–	7 885	–	–	7 885
	5 091	–	479	–	479	–	–	5 570
	27 665	2 034	–	–	2 034	–	–	29 699
	14 522	9 002	4 171	–	13 173	–	–	27 695
	926	4 874	25	–	4 899	–	–	5 825
	10 595	–	–	–	–	–	–	10 595
	3 284	–	–	–	–	–	–	3 284
	7 316	–	–	–	–	–	–	7 316
	14 820	–	107 801	–	107 801	–	–	122 621
	–	–	6 126	–	6 126	–	–	6 126
	–	–	669	–	669	–	–	669
	335	–	1 377	–	1 377	–	–	1 712
	–	–	–	–	–	–	38	38
	–	–	–	–	–	–	372	372
	491	–	3 774	–	3 774	–	2 021	6 286
	–	–	–	–	–	–	542	542
	–	–	–	–	–	–	4 858	4 858
	–	–	–	–	–	–	169	169
	–	–	–	–	–	–	97	97
	85 804	15 910	161 362	–	177 272	–	8 097	271 173
	–	–	–	–	–	76 903	–	76 903
	85 804	15 910	161 362	–	177 272	76 903	8 097	348 076
	–	–	–	13 933	13 933	–	–	13 933
	8 570	–	–	–	–	–	–	8 570
	4 188	–	–	–	–	–	–	4 188
	3 817	–	–	14 357	14 357	–	–	18 174
	6 748	–	–	169 346	169 346	–	–	176 094
	–	–	–	4 389	4 389	–	–	4 389
	–	–	–	6 256	6 256	–	–	6 256
	492	–	–	–	–	–	–	492
	–	–	–	–	–	–	1 625	1 625
	–	–	–	–	–	–	319	319
	663	–	–	3 046	3 046	–	1 554	5 263
	24 478	–	–	211 327	211 327	–	3 498	239 303
	–	–	–	–	–	76 880	–	76 880
	–	–	–	–	–	23	–	23
	24 478	–	–	211 327	211 327	76 903	3 498	316 206
	–	–	–	9 628	9 628	–	–	9 628
	24 478	–	–	220 955	220 955	76 903	3 498	325 834

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception	Available-for-sale
11. Analysis of financial assets and liabilities by measurement basis (continued)			
Group			
2011			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	216	–
Non-sovereign and non-bank cash placements	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 555	1 631	–
Sovereign debt securities	54	26 377	2 741
Bank debt securities	10 873	–	–
Other debt securities	387	355	–
Derivative financial instruments*	11 489	–	–
Securities arising from trading activities	2 872	–	–
Investment portfolio	55	7 319	37
Loans and advances to customers	–	13 072	–
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	1 085	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	789	323	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	33 074	50 378	2 778
Financial instruments at fair value through profit or loss in respect of			
– Liabilities to customers	–	–	–
	33 074	50 378	2 778
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	10 495	–	–
Other trading liabilities	3 417	–	–
Repurchase agreements and cash collateral on securities lent	5 732	–	–
Customer accounts (deposits)	17	9 854	–
Debt securities in issue	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	1 087	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	990	324	–
	20 651	11 265	–
Liabilities to customers under investment contracts	–	–	–
Insurance liabilities, including unit-linked liabilities	–	–	–
	20 651	11 265	–
Subordinated liabilities	–	–	–
	20 651	11 265	–

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges. For more information refer to note 50.*

	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Insurance related	Non-financial instruments	Total
	–	–	6 813	–	6 813	–	–	6 813
	216	–	5 916	–	5 916	–	–	6 132
	–	–	5 829	–	5 829	–	–	5 829
	8 186	–	3 429	–	3 429	–	–	11 615
	29 172	–	–	–	–	–	–	29 172
	10 873	7 296	–	–	7 296	–	–	18 169
	742	3 846	–	–	3 846	–	–	4 588
	11 489	–	–	–	–	–	–	11 489
	2 872	–	–	–	–	–	–	2 872
	7 411	–	–	–	–	–	–	7 411
	13 072	–	101 378	–	101 378	–	–	114 450
	–	–	6 334	–	6 334	–	–	6 334
	–	–	784	–	784	–	–	784
	1 085	–	867	–	867	–	–	1 952
	–	–	–	–	–	–	135	135
	–	–	–	–	–	–	404	404
	1 112	–	2 214	–	2 214	–	1 912	5 238
	–	–	–	–	–	–	467	467
	–	–	–	–	–	–	4 127	4 127
	–	–	–	–	–	–	203	203
	–	–	–	–	–	–	111	111
	86 230	11 142	133 564	–	144 706	–	7 359	238 295
	–	–	–	–	–	69 180	–	69 180
	86 230	11 142	133 564	–	144 706	69 180	7 359	307 475
	–	–	–	10 956	10 956	–	–	10 956
	10 495	–	–	–	–	–	–	10 495
	3 417	–	–	–	–	–	–	3 417
	5 732	–	–	5 001	5 001	–	–	10 733
	9 871	–	–	144 633	144 633	–	–	154 504
	–	–	–	5 142	5 142	–	–	5 142
	–	–	–	6 310	6 310	–	–	6 310
	1 087	–	–	156	156	–	–	1 243
	–	–	–	–	–	–	1 634	1 634
	–	–	–	–	–	–	823	823
	1 314	–	–	2 427	2 427	–	1 649	5 390
	31 916	–	–	174 625	174 625	–	4 106	210 647
	–	–	–	–	–	69 152	–	69 152
	–	–	–	–	–	28	–	28
	31 916	–	–	174 625	174 625	69 180	4 106	279 827
	–	–	–	6 866	6 866	–	–	6 866
	31 916	–	–	181 491	181 491	69 180	4 106	286 693

At 31 March R'million	At fair value through profit or loss		
	Trading	Designated at inception	Available-for-sale
11. Analysis of financial assets and liabilities by measurement basis (continued)			
Company			
2012			
Assets			
Loans and advances to banks	–	–	–
Investment portfolio	–	41	–
Other assets	–	–	–
Investment in subsidiaries	–	–	–
	–	41	–
Liabilities			
Debt securities in issue	–	–	–
Current taxation liabilities	–	–	–
Other liabilities	–	–	–
	–	–	–
Company			
2011			
Assets			
Loans and advances to banks	–	–	–
Investment portfolio	–	97	–
Loans and advances to customers	–	–	–
Other assets	–	–	–
Investment in subsidiaries	–	–	–
	–	97	–
Liabilities			
Debt securities in issue	–	–	–
Current taxation liabilities	–	–	–
Other liabilities	–	–	–
	–	–	–

Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Insurance related	Non-financial instruments	Total
–	–	28	–	28	–	–	28
41	–	–	–	–	–	–	41
–	–	149	–	149	–	–	149
–	–	–	–	–	–	13 568	13 568
41	**–**	**177**	**–**	**177**	**–**	**13 568**	**13 786**
–	–	–	400	400	–	–	400
–	–	–	–	–	–	247	247
–	–	–	56	56	–	–	56
–	**–**	**–**	**456**	**456**	**–**	**247**	**703**
–	–	27	–	27	–	–	27
97	–	–	–	–	–	–	97
–	–	1	–	1	–	–	1
–	–	1	–	1	–	–	1
–	–	–	–	–	–	11 854	11 854
97	**–**	**29**	**–**	**29**	**–**	**11 854**	**11 980**
–	–	–	400	400	–	–	400
–	–	–	–	–	–	227	227
–	–	–	59	59	–	–	59
–	**–**	**–**	**459**	**459**	**–**	**227**	**686**

12. Fair value hierarchy

For financial assets and financial liabilities carried at fair value, the table below provides details of the basis used for determining the fair value according to the following hierarchy:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Assets and liabilities related to the long-term assurance business attributable to policyholders have been excluded from the analysis as the change in fair value of related assets is attributable to policyholders.

At 31 March R'million	Total instruments at fair value as per note 11	Valuation technique applied		
		Level 1	Level 2	Level 3
2012				
Group				
Assets				
Loans and advances to banks	759	–	759	–
Reverse repurchase agreements and cash collateral on securities borrowed	5 091	3 245	1 846	–
Sovereign debt securities	27 665	26 806	859	–
Bank debt securities	14 522	1 287	13 235	–
Other debt securities	926	302	572	52
Derivative financial instruments	10 595	1	10 683	(89)
Securities arising from trading activities	3 284	2 597	687	–
Investment portfolio	7 316	1 046	6 206	64
Loans and advances to customers	14 820	–	14 820	–
Other securitised assets	335	–	335	–
Other assets	491	482	9	–
	85 804	35 766	50 011	27
Liabilities				
Derivative financial instruments	8 570	5	8 565	–
Other trading liabilities	4 188	4 188	–	–
Repurchase agreements and cash collateral on securities lent	3 817	3 817	–	–
Customer accounts (deposits)	6 748	–	6 748	–
Liabilities arising on securitisation of other assets	492	–	492	–
Other liabilities	663	653	10	–
	24 478	8 663	15 815	–

At 31 March R'million	Total instruments at fair value as per note 11	Valuation technique applied		
		Level 1	Level 2	Level 3
12. Fair value hierarchy (continued)				
2011				
Group				
Assets				
Loans and advances to banks	216	–	216	–
Reverse repurchase agreements and cash collateral on securities borrowed	8 186	7 558	628	–
Sovereign debt securities	29 172	28 364	808	–
Bank debt securities	10 873	–	10 873	–
Other debt securities	742	262	424	56
Derivative financial instruments	11 489	–	11 472	17
Securities arising from trading activities	2 872	2 872	–	–
Investment portfolio	7 411	609	6 747	55
Loans and advances to customers	13 072	–	13 072	–
Other securitised assets	1 085	–	1 085	–
Other assets	1 112	1 109	3	–
	86 230	40 774	45 328	128
Liabilities				
Derivative financial instruments	10 495	–	10 495	–
Other trading liabilities	3 417	3 417	–	–
Repurchase agreements and cash collateral on securities lent	5 732	5 732	–	–
Customer accounts (deposits)	9 871	–	9 871	–
Liabilities arising on securitisation of other assets	1 087	–	1 087	–
Other liabilities	1 314	856	400	58
	31 916	10 005	21 853	58

At 31 March R'million	Total instruments at fair value as per note 11	Valuation technique applied		
		Level 1	Level 2	Level 3
2012				
Company				
Assets				
Investment portfolio	41	–	41	–
	41	–	41	–
2011				
Company				
Assets				
Investment portfolio	97	–	97	–
	97	–	97	–

12. Fair value hierarchy (continued)

The following table shows a reconciliation from the net opening balances to the net closing balances for fair value measurements in net level 3 of the fair value hierarchy:

For the year to 31 March R'million	Group	
	2012	2011
Group		
Net level 3 instruments at fair value through the income statement		
Opening balance at the beginning of the year	70	206
Total gains or losses recognised in the current year	43	4
Purchases	6	18
Sales	(105)	(102)
Issues	(57)	–
Transfers out of level 3	–	(155)
Transfers into level 3	63	104
Foreign exchange adjustments	7	(5)
Closing balance at the end of the year	27	70

Instruments were transferred into level 3 when significant inputs to valuation models were no longer observable. In the prior year instruments were transferred out of level 3 to level 2 due to improved levels of observable inputs for valuation of these instruments.

There were no transfers between level 1 and level 2.

The following table quantifies the gains and losses recognised on level 3 instruments:

For the year to 31 March R'million	Group	
	2012	2011
Total gains or losses included in the income statement for the year		
Interest income	1	–
Fee and commission income	–	1
Investment income	28	12
Client flow trading income	14	(9)
	43	4

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions:

At 31 March R'million	2012		2011	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Group				
Reflected in the income statement				
Assets				
Other debt securities	3	2	7	10
Investment portfolio	27	52	55	17
Derivative financial instruments	119	6	16	5
Liabilities				
Other liabilities	–	–	6	3

The above variations have been determined with reference to the key unobservable inputs which mainly relate to future cash flows and discount rates applied.

At 31 March R'million	2012 Carrying value	2012 Fair value	2011 Carrying value	2011 Fair value
13. Fair value of financial instruments at amortised cost				
Group				
Assets				
Cash and balances at central banks	9 303	9 303	6 813	6 813
Loans and advances to banks	19 752	19 752	5 916	5 916
Non-sovereign and non-bank cash placements	7 885	7 885	5 829	5 829
Reverse repurchase agreements and cash collateral on securities borrowed	479	479	3 429	3 429
Sovereign debt securities	2 034	2 078	–	–
Bank debt securities	13 173	12 952	7 296	7 087
Other debt securities	4 899	4 910	3 846	3 956
Loans and advances to customers	107 801	107 857	101 378	101 317
Own originated loans and advances to customers securitised	6 126	6 126	6 334	6 334
Other loans and advances	669	669	784	784
Other securitised assets	1 377	1 376	867	867
Other assets	3 774	3 858	2 214	2 820
	177 272	177 245	144 706	145 152
Liabilities				
Deposits by banks	13 933	13 993	10 956	10 963
Repurchase agreements and cash collateral on securities lent	14 357	14 534	5 001	5 001
Customer accounts (deposits)	169 346	169 780	144 633	144 638
Debt securities in issue	4 389	4 389	5 142	5 169
Liabilities arising on securitisation of own originated loans and advances	6 256	6 256	6 310	6 328
Liabilities arising on securitisation of other assets	–	–	156	156
Other liabilities	3 046	3 046	2 427	2 427
Subordinated liabilities	9 628	9 712	6 866	7 058
	220 955	221 710	181 491	181 740
Company				
Assets				
Loans and advances to banks	28	28	27	27
Loans and advances to customers	–	–	1	1
Other assets	149	149	1	1
	177	177	29	29
Liabilities				
Debt securities in issue	400	400	400	400
Other liabilities	56	56	57	57
	456	456	457	457

13. Fair value of financial instruments at amortised cost (continued)

The paragraphs below describe the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. These assumptions also apply to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest yield curve appropriate for the remaining term to maturity.

At 31 March R'million	Carrying value	Fair value adjustment		Maximum exposure to credit risk
		Year to date	Cumulative	
14. Designated at fair value: loans and receivables and financial liabilities				
Group				
Loans and receivables				
2012				
Loans and advances to banks	759	77	(86)	759
Bank debt securities	149	1	5	149
Other debt securities	77	(21)	(133)	77
Loans and advances to customers	14 820	(180)	850	14 820
	15 805	(123)	636	15 805
2011				
Loans and advances to banks	216	(11)	(4)	216
Reverse repurchase agreements and cash collateral on securities borrowed	1 631	21	21	–
Loans and advances to customers	13 072	7	650	13 072
	14 919	17	667	13 288

Year to date and cumulative fair value adjustments to loans and receivables attributable to credit risk were (R21.1 million) and (R133.6 million) respectively (2011: Rnil). Due to the lack of observable credit spreads on the above we were not able to accurately identify the credit elements of the fair value adjustments.

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment	
			Year to date	Cumulative
14. Designated at fair value: loans and receivables and financial liabilities				
Group				
Financial liabilities				
2012				
Customer accounts (deposits)	6 748	6 508	59	240
Liabilities arising on securitisation of other assets	492	492	–	–
Other liabilities	323	323	48	–
	7 563	7 323	107	240
2011				
Customer accounts (deposits)	9 854	9 681	(186)	174
Liabilities arising on securitisation of other assets	1 087	1 087	–	–
Other liabilities	324	387	102	(63)
	11 265	11 155	(84)	111

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

Due to the lack of observable credit spreads on the above, we were not able to accurately identify the credit elements of the fair value adjustments.

At 31 March R'million	Group	
	2012	2011
15. Cash and balances at central banks		
The country risk of the cash and balances at central banks lies in the following geographies:		
South Africa	9 300	6 813
Other	3	–
Total	9 303	6 813

At 31 March R'million	Group		Company	
	2012	2011	2012	2011
16. Loans and advances to banks				
The country risk of the loans and advances to banks lies in the following geographies:				
South Africa	6 543	2 246	28	27
United Kingdom	5 047	1 460	–	–
Europe (excluding UK)	8 486	2 397	–	–
United States of America	226	11	–	–
Australia	209	18	–	–
Total	20 511	6 132	28	27

At 31 March R'million	Group 2012	 2011
17. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collaterals on securities lent		
Assets		
Reverse repurchase agreements	3 252	7 527
Cash collateral on securities borrowed	2 318	4 088
	5 570	11 615
As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or repledge. The fair value of the securities accepted under these terms as at 31 March 2012 amounts to R3.3 billion (2011: R7.5 billion).		
Liabilities		
Repurchase agreements	18 174	10 733
	18 174	10 733

At 31 March R'million	Group 2012	 2011
18. Sovereign debt securities		
Bonds	6 594	2 961
Debentures	2 175	5 230
Liquid asset bills	20 930	20 981
	29 699	29 172
The country risk of the above securities lies in the following geography:		
South Africa	29 699	29 172
Total	29 699	29 172

At 31 March R'million	Group 2012	 2011
19. Bank debt securities		
Bonds	14 324	7 297
Floating rate notes	10 838	4 404
Liquid asset bills	239	–
Promissory notes	2 294	6 468
	27 695	18 169
The country risk of the above securities lies in the following geographies:		
South Africa	14 902	12 327
United Kingdom	8 100	2 083
Europe (excluding UK)	670	625
United States of America	4 005	3 118
Australia	18	16
Total	27 695	18 169

At 31 March R'million	Group 2012	 2011
20. Other debt securities		
Bonds	2 483	1 598
Commercial paper	198	–
Promissory notes	19	26
Other investments*	3 125	2 964
	5 825	4 588
The country risk of the above assets lies in the following geographies:		
South Africa	1 206	503
United Kingdom	4 286	3 994
Europe (excluding UK)	31	91
United States of America	302	–
Total	5 825	4 588

* *Largely comprises investments relating to our securitisation and principal finance activities as discussed on page 60.*

21. Derivative financial instruments

Group

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

At 31 March R'million	2012			2011		
	Notional principal amounts	Positive fair value	Negative fair value	Notional principal amounts	Positive fair value	Negative fair value
Foreign exchange derivatives						
Forward foreign exchange contracts	12 520	266	251	13 054	271	100
Currency swaps	114 726	2 338	515	73 075	1 414	685
OTC options	3 989	49	86	1 813	25	22
Other foreign exchange contracts	6 249	13	10	4 451	12	11
OTC derivatives	137 484	2 666	862	92 393	1 722	818
Exchange traded futures	–	–	–	588	–	–
	137 484	2 666	862	92 981	1 722	818
Interest rate derivatives						
Caps and floors	8 325	34	34	2 850	20	22
Swaps	367 228	5 724	6 892	685 119	7 820	8 162
Forward rate agreements	23 642	249	165	1 185 706	377	427
OTC options	9 620	34	34	11 140	45	42
Other interest rate contracts	189	13	–	188	10	–
	409 004	6 054	7 125	1 885 003	8 272	8 653
Equity and stock index derivatives						
OTC options	15 825	1 282	472	9 944	851	915
Equity swaps and forwards	1	1	5	–	–	–
OTC derivatives	15 826	1 283	477	9 944	851	915
Exchange traded futures	18 706	1	–	7 091	2	–
Exchange traded options	77 481	2	–	23 827	–	–
Warrants	1 666	–	–	148	–	–
	113 679	1 286	477	41 010	853	915
Commodity derivatives						
OTC options	–	–	–	436	41	41
Commodity swaps and forwards	4 105	195	103	782	141	2
	4 105	195	103	1 218	182	43
Credit derivatives						
Credit swaps	664	8	3	1	1	–
Credit linked notes	–	–	–	87	–	66
	664	8	3	88	1	66
Embedded derivatives*		386	–		459	–
Derivatives per balance sheet		10 595	8 570		11 489	10 495

* *Mainly includes profit shares received as part of lending transactions.*

At 31 March R'million	Group	
	2012	2011
22. Securities arising from trading activities		
Listed equities	1 930	2 310
Bonds	1 231	562
Floating rate notes	123	–
	3 284	2 872

At 31 March R'million	Group		Company	
	2012	2011	2012	2011
23. Investment portfolio				
Listed equities	1 046	1 384	–	–
Unlisted equities	6 270	6 027	41	97
	7 316	7 411	41	97

At 31 March R'million	Group		Company	
	2012	2011	2012	2011
24. Loans and advances to customers and other loans and advances				
Gross loans and advances to customers	123 924	115 906	–	1
Impairments of loans and advances to customers	(1 303)	(1 456)	–	–
Net loans and advances to customers	122 621	114 450	–	1
Gross other loans and advances to customers	680	860	–	–
Impairments of other loans and advances to customers	(11)	(76)	–	–
Net other loans and advances to customers	669	784	–	–
For further analysis on gross core loans and advances refer to pages 45 to 57 in the risk management section.				
Specific and portfolio impairments				
Reconciliation of movements in specific and portfolio impairments:				
Loans and advances to customers				
Specific impairment				
Balance at beginning of year	1 137	538	–	–
Charge to the income statement	964	816	–	–
Reversals recognised in the income statement	(32)	(192)		–
Recoveries	27	(2)	–	–
Utilised	(1 004)	(23)	–	–
Exchange adjustment	7	–	–	–
Balance at end of year	1 099	1 137	–	–
Portfolio impairment				
Balance at beginning of year	319	320	–	–
Charge to the income statement	(116)	–	–	–
Exchange adjustment	1	(1)	–	–
Balance at end of year	204	319	–	–

At 31 March R'million	Group 2012	Group 2011	Company 2012	Company 2011
24. Loans and advances to customers and other loans and advances (continued)				
Other loans and advances				
Specific impairment				
Balance at beginning of year	76	76	–	–
Charge to the income statement	11	–	–	–
Utilised	(76)	–	–	–
Balance at end of year	11	76	–	–
Total specific impairments	1 109	1 137	–	–
Total portfolio impairments	204	319	–	–
Total impairments	1 313	1 456		

At 31 March R'million	Group 2012	Group 2011
Reconciliation of income statement charge:		
Total impairment on loans and advances	816	624
Specific impairment charged to income statement	932	624
Portfolio impairment charged to income statement	(116)	–
Total impairment on securitised assets	(3)	(2)
Specific impairment charged to income statement	–	(4)
Portfolio impairment charged to income statement	(3)	2
Total impairment on other loans and advances	11	–
Specific impairment charged to income statement	11	–
Net bad debts written off directly to the income statement	–	238
Total income statement charge	824	860

At 31 March R'million	Group 2012	 2011
25. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	6 132	6 343
Impairments of own originated loans and advances to customers securitised	(6)	(9)
Net own originated loans and advances to customers securitised	6 126	6 334
Other securitised assets are made up of the following categories of assets:		
Other securitised assets		
Cash and cash equivalents	1 219	710
Loans and advances to customers	158	157
Other debt securities	335	1 085
Total other securitised assets	1 712	1 952
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	6 256	6 310
Liabilities arising on securitisation of other assets	492	1 243
Specific and portfolio impairments		
The impairments below relate only to own originated loans and advances to customers securitised.		
Reconciliation of movements in group specific and portfolio impairments of assets that have been securitised:		
Specific impairment		
Balance at beginning of year	4	53
Charge to the income statement	–	(4)
Disposals	–	(44)
Reversals	–	(1)
Balance at end of year	4	4
Portfolio impairment		
Balance at beginning of year	5	3
Charge to the income statement	(3)	2
Balance at end of year	2	5
Total impairments	6	9

At 31 March R'million	Group	
	2012	2011*
26. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	38	135
	38	135
Analysis of the movement in our share of net assets:		
At beginning of year	135	180
Acquisitions	–	7
Impairment	–	(25)
Loan to associate	–	(10)
Share of associate losses	(1)	(17)
Exchange differences	5	–
Disposal of associate	(101)	–
Share of net asset value at end of year	38	135

Associated undertakings comprise unlisted investments. The group held 23.94% of the shareholding of Global Ethanol Holdings Limited at 31 March 2011.

The group's holding in Dolphin Coast Marina Estate Limited is 34.54% (2011: 34.54%). The directors' valuation of the investment in associates approximates its carrying value.

Summarised financial information at 31 March	2012	2011
Dolphin Coast Marina Estate Limited		
Total assets	184	50
Total liabilities	81	13
Total revenue for the year	31	3
Total (loss)/profit before taxation for the year	(3)	2

At 31 March R'million	Group		Company	
	2012	2011	2012	2011
27. Deferred taxation				
Deferred taxation assets	372	404	–	–
Deferred taxation liabilities	(319)	(823)	–	–
Net deferred taxation	53	(419)	–	–
The net deferred taxation assets/(liabilities) arise from:				
Income and expenditure accruals	752	726	–	–
Tax relief from taxation losses brought forward	110	133	–	–
Revaluations on investment properties	(287)	(80)	–	–
Unrealised fair value adjustments on financial instruments	(522)	(1 198)	–	–
	53	(419)	–	–
Reconciliation of net deferred taxation assets/(liabilities)				
Opening balance	(419)	(458)	–	18
Charge to the income statement	434	42	–	(18)
Charged directly to other comprehensive income	–	(1)	–	–
Arising on acquisitions/disposals	2	–	–	–
Other	36	–	–	–
Foreign exchange adjustments	–	(2)	–	–
Closing balance	53	(419)	–	–

Deferred tax assets are recognised to the extent it is likely that profits will be available in future periods. The assessment of the likelihood of future profits is based on past performance and current projections. Deferred tax assets are not recognised in respect of capital losses as crystallisation of capital gains and the eligibility of potential capital losses is uncertain.

At 31 March R'million	Group		Company	
	2012	2011	2012	2011
28. Other assets				
Settlement debtors	2 322	1 937	–	–
Dealing properties	1 895	1 645	–	–
Accruals and prepayments	342	272	–	–
Trading initial margins	268	431	–	–
Other debtors	1 459	953	149	1
	6 286	5 238	149	1

At 31 March R'million	Freehold properties	Leasehold improve-ments	Furniture and vehicles	Equipment	Total
29. Property and equipment					
Group					
2012					
Cost					
At the beginning of the year	159	19	163	557	898
Additions	56	2	11	113	182
Disposals	–	–	(6)	(7)	(13)
At the end of the year	215	21	168	663	1 067
Accumulated depreciation and impairment					
At the beginning of the year	(7)	(17)	(102)	(305)	(431)
Disposals	–	–	2	10	12
Depreciation	(4)	(2)	(6)	(94)	(106)
At the end of the year	(11)	(19)	(106)	(389)	(525)
Net carrying value	204	2	62	274	542
2011					
Cost					
At the beginning of the year	–	19	158	377	554
Additions	159	–	10	208	377
Disposals	–	–	(5)	(28)	(33)
At the end of the year	159	19	163	557	898
Accumulated depreciation and impairment					
At the beginning of the year	–	(13)	(97)	(256)	(366)
Disposals	–	–	2	11	13
Depreciation	(7)	(4)	(7)	(60)	(78)
At the end of the year	(7)	(17)	(102)	(305)	(431)
Net carrying value	152	2	61	252	467

At 31 March R'million	Group 2012	Group 2011
30. Investment properties		
At the beginning of the year	4 127	3 033
Additions	857	644
Disposals	(398)	(160)
Revaluation	272	610
At the end of the year	4 858	4 127

Investment properties are carried at fair value.

The group values its investment properties twice annually. The properties are valued by directors. The valuation is performed by capitalising the annual net income of a property at a market-related yield applicable at the time.

At 31 March R'million	Group 2012	Group 2011
31. Goodwill		
Cost		
At the beginning of the year	1 283	1 283
At the end of the year	1 283	1 283
Accumulated impairments		
At the beginning of the year	(1 080)	(1 003)
Impairment	(34)	(77)
At the end of the year	(1 114)	(1 080)
Net book value	169	203
Analysis of goodwill by line of business		
Asset Management	128	162
Wealth & Investment	37	37
Specialist Banking	4	4
Total group	169	203

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired, by comparing the carrying value to its recoverable amount.

The recoverable amount of goodwill is determined based on expected cash flows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure.

Discount rates are based on pre-tax rates that reflect current market conditions, adjusted for the specific risks associated with the cash-generating unit. Growth rates are based on industry growth forecasts. Cash flow forecasts are based on most recent financial budgets for the next financial year and are extrapolated for a period of three to five years and adjusted for expected future events.

Impairment losses comprise:

- R34 million (2011: R77 million) in respect of the Asset Management segment. The impairment calculation was based on a discounted cash flow valuation.

The majority of the goodwill relates to Investec Asset Management, particularly to the businesses from the Fedsure acquisition, which have been identified as a separate cash-generating unit. The goodwill relating to Fedsure has been tested for impairment, taking into account profitability, being the current year profits and the budgeted profits and funds under management. The discount rate applied of 12.8% (2011: 12.8%) is determined using the South African risk-free rate adjusted for the risk related to the cash-generating unit.

At 31 March R'million	Acquired software	Internally generated software	Total
32. Intangible assets			
Group			
2012			
Cost or valuation			
At the beginning of the year	353	46	399
Additions	22	18	40
Disposals	(5)	–	(5)
At the end of the year	370	64	434
Accumulated amortisation and impairments			
At the beginning of the year	(259)	(29)	(288)
Amortisation	(14)	(35)	(49)
At the end of the year	(273)	(64)	(337)
Net carrying value	97	–	97
2011			
Cost or valuation			
At the beginning of the year	318	36	354
Additions	48	12	60
Disposals	(12)	(2)	(14)
Disposal of subsidiary undertaking	(1)	–	(1)
At the end of the year	353	46	399
Accumulated amortisation and impairments			
At the beginning of the year	(229)	(27)	(256)
Disposals	2	2	4
Amortisation	(33)	(4)	(37)
Disposal of subsidiary undertaking	1	–	1
At the end of the year	(259)	(29)	(288)
Net carrying value	94	17	111

At 31 March	Nature of business	Issued ordinary share capital	% Holding	Shares at book value R'million 2012	Shares at book value R'million 2011	Net indebtedness R'million 2012	Net indebtedness R'million 2011
33. Investment in subsidiaries							
Direct subsidiaries of Investec Limited							
Investec Bank LimitedÄ	Banking	R29 383 478	100.00	12 240	10 555	(238)	599
Investec Asset Management Holdings (Pty) LimitedÄ	Investment holding	R200	100.00	*	*	*	*
Investec Assurance LimitedÄ	Insurance company	R10 000 000	100.00	10	10	*	*
Investec Employee Benefits Holdings (Pty) LimitedÄ	Investment holding	R1	100.00	*	*	120	111
Investec International (Gibraltar) (Limited)§	Investment holding	£1 000	100.00	148	165	*	*
Investec Securities LimitedÄ	Stockbroking	R172 000	100.00	112	132	(36)	(36)
Fedsure International LimitedÄ	Investment holding	R1 012 456	100.00	200	216	*	*
Investec Property Group Holdings (Pty) LimitedÄ	Investment holding	R3 000	100.00	*	*	*	*
Investec Property Fund LimitedÄ	Engage in long-term immovable property investment	R1 700	50.01	850	–	*	–
Other subsidiaries^^				109	149	53	(47)
				13 669	11 227	(101)	627

* *Less than R1 million.*
^^ *Investec Personal Financial Services (Pty) Limited and Sibvest Limited have been included in 'Other subsidiaries'.*
Ä *South Africa*
§ *Gibraltar*

Loans to/(from) subsidiaries are unsecured, interest-bearing, with no fixed terms of repayment.

At 31 March R'million	Nature of business	Issued ordinary share capital	% Holding
33. Investment in subsidiaries (continued)			
Indirect subsidiaries of Investec Limited			
Grayinvest LimitedÄ	Investment holding	R100	100
Investec Asset Management (Pty) LimitedÄ	Asset management	R50 000	100
Investec Insurance Brokers (Pty) LimitedÄ	Insurance broking	R2	100
Investec International Holdings (Pty) LimitedÄ	Investment holding	R102	100
Investec Fund Managers SA (RF) (Pty) LimitedÄ	Unit trust management	R8 000 000	100
Investec Bank (Mauritius) Limited**	Banking	R56 478 463	100
Investec Property (Pty) LimitedÄ	Property trading	R1 174	100
Reichmans Holdings LimitedÄ	Trade and asset finance	R15	100
Investec Employee Benefits LimitedÄ	Long-term insurance	R7 544 000	100
Traded Endowment Policies Limited^	Endowments trading	£28 530 788	100

Ä *South Africa*
^ *United Kingdom*
** *Mauritius*

Details of subsidiaries which are not material to the financial position of the group are not stated above.

Investec Limited has no equity interest in the following special purpose vehicles, but they are consolidated on the basis of the group sharing in the majority of the risks and rewards associated with the entity:

Securitisation entities

- Private Mortgages 1 (Pty) Limited
- Private Mortgages 2 (Pty) Limited
- Private Mortgages 3 (Pty) Limited
- Private Residential Mortgages (Pty) Limited
- Private Commercial Mortgages (Pty) Limited
- Grayston Conduit 1 (Pty) Limited
- Corporate Finance Solutions Receivables (Pty) Limited.

The following subsidiaries are not consolidated for regulatory purposes:

Investec Assurance Limited
Investec Employee Benefit Holdings (Pty) Limited and its subsidiaries.

There are no subsidiaries which are consolidated for regulatory but not for accounting purposes.

At 31 March R'million	Group	
	2012	2011
34. Long-term assurance business attributable to policyholders		
Liabilities to customers under investment contracts		
Investec Employee Benefits Limited (IEB)	499	617
Investec Assurance Limited	76 381	68 535
	76 880	69 152
Insurance liabilities, including unit-linked liabilities – IEB	23	28
Total policyholder liabilities	76 903	69 180
Investec Employee Benefits Limited		
The assets of the long-term assurance fund attributable to policyholders are detailed below:		
Investments	521	623
Other assets	1	22
	522	645
Investments shown above comprise:		
Interest-bearing securities	243	402
Stocks, shares and unit trusts	182	190
Deposits	96	31
	521	623
Investec Assurance Limited		
The assets of the long-term assurance fund attributable to policyholders are detailed below:		
Investments	75 973	66 892
Debtors and prepayments	164	1 625
Other assets	244	18
Assets of long-term assurance fund attributable to policyholders	76 381	68 535
Investments shown above comprise:		
Interest-bearing securities	21 594	17 932
Stocks, shares and unit trusts	42 334	35 790
Deposits	12 045	13 170
	75 973	66 892
The business of Investec Assurance Limited is that of linked business with retirement funds. The retirement funds hold units in a pooled portfolio of assets via a linked policy issued by the company. The assets are beneficially held by Investec Assurance Limited. Due to the nature of the linked policy, Investec Assurance Limited's liability to the policyholders is equal to the market value of the assets under the policy.		
Income statement items related to assurance activities		
Investment income on assurance activities	86	720
Premiums and reinsurance recoveries on insurance contracts	175	68
Claims and reinsurance premiums on insurance business	(250)	(642)
Operating expenses	–	(12)
Net income before taxation	11	134
Taxation	(9)	(38)
Net income after taxation	2	96

At 31 March R'million	Group	
	2012	2011
35. Other trading liabilities		
Short positions		
– Equities	3 616	2 922
– Gilts	572	495
	4 188	3 417

At 31 March R'million	Group		Company	
	2012	2011	2012	2011
36. Debt securities in issue				
Repayable in:				
Not more than three months	1 063	1 026	–	–
Over three months but not more than one year	2 639	3 153	–	–
Over one year but not more than five years	87	523	400	400
Greater than five years	600	440	–	–
	4 389	5 142	400	400

At 31 March R'million	Group		Company	
	2012	2011	2012	2011
37. Current taxation liabilities				
Income taxation payable	1 592	1 619	247	227
Indirect taxes payable	33	15	–	–
	1 625	1 634	247	227

At 31 March R'million	Group		Company	
	2012	2011	2012	2011
38. Other liabilities				
Settlement liabilities	988	1 685	–	–
Other non-interest bearing liabilities	1 698	1 468	17	20
Other creditors and accruals	2 577	2 237	39	39
	5 263	5 390	56	59

At 31 March R'million	Group	
	2012	2011
39. Subordinated liabilities		
Issued by Investec Bank Limited		
– A wholly owned subsidiary of Investec Limited		
IV01 16% subordinated unsecured bonds	–	180
IV03 16% subordinated unsecured callable bonds	1 508	1 508
IV04 10.75% subordinated unsecured callable bonds	2 062	2 062
IV07 variable rate subordinated unsecured callable bonds	941	941
IV08 13.735% subordinated unsecured callable bonds	200	200
IV09 variable rate subordinated unsecured callable bonds	200	200
IV012 variable rate subordinated unsecured callable bonds	250	250
IV013 variable rate subordinated unsecured callable bonds	50	50
IV014 10.545% subordinated unsecured callable bonds	125	125
IV015 variable rate subordinated unsecured callable bonds	1 350	1 350
IV016 variable rate subordinated unsecured callable bonds	325	–
IV017 indexed rate subordinated unsecured callable bonds	1 698	–
	8 709	6 866
Issued by Investec Property Fund Limited		
Variable rate unsecured subordinated debentures	919	–
	919	–
	9 628	6 866
All subordinated debt issued by Investec Limited and its subsidiaries is denominated in South African Rand.		
Remaining maturity:		
In one year or less, or on demand	1 508	180
In more than one year, but not more than two years	3 403	3 003
In more than two years, but not more than five years	2 448	825
In more than five years	2 269	2 858
	9 628	6 866

The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding-up of the company. In a winding-up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

IV01 16% subordinated unsecured bonds

Rnil (2011: R180 million) Investec Bank Limited locally registered unsecured subordinated bonds were due in 2012. Interest is paid six monthly in arrears on 31 March and 30 September at a rate of 16.00% per annum. The bonds matured at 31 March 2012 and were settled on 2 April 2012.

IV03 16% subordinated unsecured callable bonds

R1 508 million (2011: R1 508 million) Investec Bank Limited locally registered unsecured subordinated bonds are due in 2017. Interest is paid six monthly in arrears on 31 March and 30 September at a rate of 16% per annum until 31 March 2012, whereafter the interest rate will change to a floating rate of three-month JIBAR plus 2.00% until called/maturity. The bonds have subsequently been called and settled on 2 April 2012.

IV04 10.75% subordinated unsecured callable bonds

R2 062 million (2011: R2 062 million) Investec Bank Limited locally registered unsecured subordinated bonds are due in 2018. Interest is paid six monthly in arrears on 30 September and 31 March at a rate of 10.75% per annum until 31 March 2013. The settlement date is 31 March 2018, but the company has the option to call the bonds from 31 March 2013. If not called, the bonds will switch to a floating rate of three-month JIBAR plus 2.00% payable quarterly in arrears until called/maturity.

39. Subordinated liabilities (continued)

IV07 variable rate subordinated unsecured callable bonds

R941 million (2011: R941 million) Investec Bank Limited locally registered unsecured subordinated callable bonds are due in 2018. Interest is payable quarterly in arrears on 31 March, 30 June, 30 September, 31 December at a rate equal to three-month JIBAR plus 1.40% until 31 March 2013. From and including 31 March 2013 up to and excluding 31 March 2018 interest is paid at a rate equal to three-month JIBAR plus 2.00%. The maturity date is 31 March 2018, but the company has the option to call the bonds from 31 March 2013.

IV08 13.735% subordinated unsecured callable bonds

R200 million (2011: R200 million) Investec Bank Limited locally registered unsecured subordinated bonds without a maturity date. Interest is paid six monthly in arrears on 31 October and 30 April at a rate of 13.735% per annum until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV09 variable rate subordinated unsecured callable bonds

R200 million (2011: R200 million) Investec Bank Limited locally registered unsecured subordinated bonds without a maturity date. Interest is paid quarterly in arrears on 31 July, 31 October, 31 January and 30 April at a rate equal to JIBAR plus 3.75% until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV012 variable rate subordinated unsecured callable bonds

R250 million (2011: R250 million) Investec Bank Limited IV012 locally registered unsecured subordinated callable bonds are due in November 2019. Interest is payable quarterly in arrears on 26 November, 26 February, 26 May and 26 August at a rate equal to three-month JIBAR plus 3.25% until 26 November 2014. From and including 26 November 2014 up to and excluding 26 November 2019 interest is paid at a rate equal to three-month JIBAR plus 4.50%. The maturity date is 26 November 2019, but the company has the option to call the bonds from 26 November 2014.

IV013 variable rate subordinated unsecured callable bonds

R50 million (2011: R50 million) Investec Bank Limited IV013 locally registered unsecured subordinated callable bonds are due in June 2020. Interest is payable quarterly in arrears on 22 March, 22 June, 22 September and 22 December at a rate equal to three-month JIBAR plus 2.75% until 22 June 2015. From and including 22 June 2015 up to and excluding 22 June 2020 interest is paid at a rate equal to three-month JIBAR plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

IV014 10.545% subordinated unsecured callable bonds

R125 million (2011: R125 million) Investec Bank Limited IV014 locally registered unsecured subordinated callable bonds are due in June 2020. Interest is payable six monthly in arrears on 22 June and 22 December at a fixed rate of 10.545% until 22 June 2015. From and including 22 June 2015 up to and excluding 22 June 2020 interest is paid quarterly in arrears on 22 June, 22 September, 22 December and 22 March at a rate equal to three-month JIBAR plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

IV015 variable rate subordinated unsecured callable bonds

R1 350 million (2011: R1 350 million) Investec Bank Limited IV015 locally registered unsecured subordinated callable bonds are due in September 2022. Interest is payable quarterly in arrears on 20 December, 20 March, 20 June and 20 September at a rate equal to three-month JIBAR plus 2.65% basis points until 20 September 2017. From and including 20 September 2017 up to and excluding 20 September 2022 interest is paid at a rate equal to three-month JIBAR plus 4.00%. The maturity date is 22 September 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 20 September 2017.

IV016 variable rate subordinated unsecured callable bonds

R325 million (2011: Rnil) Investec Bank Limited IV016 locally registered unsecured subordinated callable bonds are due in December 2021. Interest is payable quarterly in arrears on 6 December, 6 March, 6 June and 6 September at a rate equal to three-month JIBAR plus 2.75% until 31 December 2021. The maturity date is 31 December 2021, but the company has the option to call the bonds upon regulatory capital disqualification or from 6 December 2016.

39. Subordinated liabilities (continued)

IV017 indexed rate subordinated unsecured callable bonds

R1 698 million (2011: Rnil) Investec Bank Limited IV017 locally registered unsecured subordinated callable bonds are due in January 2022. Interest is payable semi-annually on 31 January and 31 July at a rate of 2.75% and is inflation-linked. The maturity date is 31 January 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2017.

Investec Property Fund Limited debentures

R1 838 million (2011:Rnil) Investec Property Fund Limited locally registered unsecured subordinated debentures are due at the 25th anniversary of the date of allotment and issue of the debentures. Interest payable on the debenture in each linked unit will be at least 999 times the dividend payable on each share. The debentures are redeemable at the instance of the debenture holders (by way of a special resolution) at the 25th anniversary of the date of allotment and issue (1 April 2011) of the debentures.

R919 million of the subordinated debentures are held by group companies and are therefore eliminated.

At 31 March R'million	Group 2012	Group 2011	Company 2012	Company 2011
40. Ordinary share capital				
Authorised				
450 000 000 (2011: 450 000 000) ordinary shares of R0.0002 each				
Issued				
276 020 221 (2011: 272 836 668) ordinary shares of R0.0002 each	1	1	1	1

In terms of the dual listed companies structure, shareholders have common economic and voting rights as if Investec Limited and Investec plc were a single company. These include equivalent dividends on a per share basis, joint electorate and class right variations. The UK DAS share, UK DAN share and the special converting shares have been issued to achieve this.

The unissued shares are under the control of the directors until the next annual general meeting.

At 31 March R'million	Group 2012	Group 2011	Company 2012	Company 2011
41. Perpetual preference shares				
Company				
Authorised				
100 000 000 (2011: 100 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each				
Issued				
28 719 858 (2011: 28 719 858) non-redeemable, non-cumulative, non-participating preference shares of one cent each, issued at various premiums	2 880	2 880	2 880	2 880
– Perpetual preference share capital	*	*	*	*
– Perpetual preference share premium (refer to note 42)	2 880	2 880	2 880	2 880

* *Less than R1 million*

Preference shareholders will be entitled to receive dividends if declared, at a rate of 70% of prime on R100 being the deemed value of the issue price of the preference share held. Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or *pari passu* with the preference shares.

An ordinary dividend will not be declared by Investec Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.

At 31 March R'million	Group		Company	
	2012	2011	2012	2011
42. Share premium				
Share premium on ordinary shares	6 472	6 304	6 521	6 328
Share premium on perpetual preference shares	2 880	2 880	2 880	2 880
	9 352	9 184	9 401	9 208

At 31 March	Group	
	2012	2011
43. Treasury shares		
Treasury shares held by subsidiaries of Investec Limited	R'million	R'million
Investec Limited ordinary shares	1 073	807
Premium paid on options held to acquire Investec Limited shares	(248)	–
	825	807
	Number	Number
Number of Investec Limited ordinary shares held by subsidiaries	16 579 211	23 178 288
Reconciliation of treasury shares		
At beginning of year	23 178 288	28 860 461
Purchase of own shares by subsidiary companies	9 621 390	16 504 201
Shares disposed of by subsidiaries	(16 220 467)	(22 186 374)
At end of year	16 579 211	23 178 288
	R'million	R'million
Market value of treasury shares	821	1 228

At 31 March R'million	Group	
	2012	2011
44. Non-controlling interests		
Non-controlling interests in partially held subsidiaries	10	10
Perpetual preference shares issued by Investec Bank Limited	1 534	1 534
	1 544	1 544

Authorised

70 000 000 (2011: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each

Issued

15 447 630 (2011: 15 447 630) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each, issued at a premium within a range of R96.46 to R99.99 per share

Preference shareholders will be entitled to receive dividends, if declared, at a rate of 75% of prime interest rate on the issue price of the preference share held. Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or *pari passu* with the preference shares.

An ordinary dividend will not be declared by Investec Bank Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Bank Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.

At 31 March R'million	Group			
	2012		2011	
	Total future minimum payments	Present value	Total future minimum payments	Present value
45. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers:				
Lease receivables due in:				
Less than one year	400	322	363	292
One to five years	454	396	403	353
	854	718	766	645

Unearned finance income amounted to R136 million (2011: R120 million). At 31 March 2012 and 31 March 2011, there were no unguaranteed residual values. There were no finance lease receivables in Investec Limited company at 31 March 2012 and 31 March 2011.

For the year to 31 March R'million	Group		Company	
	2012	2011	2012	2011
46. Notes to cash flow statement				
Cash generated from operating activities is derived as follows:				
Profit before taxation	3 294	3 228	2 881	1 654
Adjusted for non-cash items:				
Impairment of goodwill	34	77	–	–
Depreciation, amortisation and impairment of property, equipment and intangibles	155	115	–	–
Impairment of loans and advances	824	860	–	–
Operating loss from associates	1	17	–	–
Impairment of associate	–	25	–	–
Share-based payment charges	442	435	127	87
Fair value gains on investment properties	(272)	(582)	–	–
Operating profit adjusted for non-cash items	4 478	4 175	3 008	1 741
(Increase)/decrease in operating assets				
Loans and advances to banks	(8 275)	7 832	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 045	(6 942)	–	–
Sovereign debt securities	(518)	(10 616)	–	–
Bank debt securities	(9 482)	(4 536)	–	–
Other debt securities	(1 213)	(2 525)	–	–
Derivative financial instruments	628	(3 578)	–	–
Securities arising from trading activities	(412)	2 618	–	–
Investment portfolio	106	(1 299)	56	191
Loans and advances to customers	(8 442)	(4 466)	1	–
Own originated loans and advances to customers securitised	208	928	–	–
Other loans and advances	115	242	–	–
Other securitised assets	240	814	–	–
Other assets	(1 203)	2 434	(148)	–
Investment properties	(459)	(512)	–	–
Assurance assets	(7 723)	(9 202)	–	
	(30 385)	(28 808)	(91)	191

For the year to 31 March R'million	Group 2012	Group 2011	Company 2012	Company 2011
46. Notes to cash flow statement (continued)				
Increase/(decrease) in operating liabilities				
Deposits by banks	2 924	1 444	–	–
Derivative financial instruments	(1 978)	3 351	–	–
Other trading liabilities	771	(74)	–	–
Repurchase agreements and cash collateral on securities lent	7 441	4 452	–	–
Customer accounts	21 236	11 616	–	–
Debt securities in issue	(753)	(808)	–	–
Liabilities arising in securitisation of own originated loans and advances	(54)	(1 438)	–	–
Liabilities arising in securitisation of other assets	(751)	839	–	–
Other liabilities	(132)	(1 897)	(3)	(13)
Assurance liabilities	7 723	9 202	–	–
	36 427	26 687	(3)	(13)

At 31 March R'million	Group 2012	Group 2011
47. Related party transactions		
Compensation to the board of directors and other key management personnel*		
Short-term employee benefits	211	372
Share-based payment	66	92
	277	464

* *Key management personnel are board directors and members of the global operations forum.*

At 31 March R'million	Group and company 2012	Group and company 2011
Transactions, arrangements and agreements involving directors and others:		
Particulars of transactions, arrangements and agreements entered into by the group with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Directors, key management and connected persons and companies controlled by them		
Loans		
At beginning of year	233	181
Increase in loans	320	168
Repayment of loans	(165)	(112)
Exchange adjustments	30	(4)
At end of year	418	233
Guarantees		
At beginning of year	–	6
Repayment of guarantees	–	(6)
Additional guarantees granted	5	–
At end of year	5	–

At 31 March R'million	Group and company 2012	Group and company 2011
47. Related party transactions (continued)		
Deposits		
At beginning of year	(539)	(444)
Increase in deposits	(302)	(328)
Utilisation of deposits	338	224
Exchange adjustments	(70)	9
At end of year	(573)	(539)
The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.		
Transactions with other related parties		
Various members of key management personnel are members of the boards of directors of other companies. At 31 March 2012, Investec Limited group had the following loans outstanding from these related parties	3	22
The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.		

Refer to note 33 for loans to/(from) subsidiaries.

Investec provides certain banking and financial services to associates and joint ventures including loans, overdrafts, interest and non-interest bearing deposits and current accounts. All of these transactions arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

At 31 March R'million	Group and company 2012	Group and company 2011
Transactions with Investec plc and its subsidiaries		
Assets		
Loans and advances to banks	201	519
Loans and advances to customers	142	119
Other debt securities	3 512	3 414
Interest in associated companies	–	90
Derivative financial instruments	119	84
Other assets	203	–
Liabilities		
Deposits by banks	74	128
Customer accounts (deposits)	27	10
Repurchase agreements and cash collateral on securities lent	7 815	796
Derivative financial instruments	7	38
Other liabilities	164	110

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. During the year to March 2012, interest of R132.7 million (2011: R103.8 million) was received from entities in the Investec plc group. Interest of R27.3 million (2011: R13.4 million) was paid to entities in the Investec plc group. In the normal course of business, services are rendered between Investec plc and Investec Limited entities.

In the year to 31 March 2012, this resulted in a net payment by Investec plc group of R106.6 million (2011: R75.9 million). Specific transactions of an advisory nature between group entities have resulted in a net fee payment by Investec plc group of Rnil (2011: R10.0 million).

At 31 March R'million	Group	
	2012	2011
48. Commitments		
Undrawn facilities	27 401	23 293
Other commitments	25	788
	27 426	24 081
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business for which the fair value is recorded on balance sheet.		
Operating lease commitments		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	313	287
One to five years	1 321	1 230
Later than five years	2 372	2 691
	4 006	4 208

At 31 March 2012, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years. The annual escalation clauses range between 8% and 13.5% per annum. The majority of the leases have renewal options.

At 31 March R'million	Group		Company	
	2012	2011	2012	2011
49. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
– Guarantees and irrevocable letters of credit	8 698	8 783	2 852	3 633
	8 698	8 783	2 852	3 633

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

50. Hedges

Group

The group uses derivatives for management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the Central Treasury. Once aggregated and netted, Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Central Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependent on the classification between fair value hedges, and cash flow hedges and in particular, accounting hedges require the identification of a direct relationship between a hedged item and the hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group:

Fair value hedges

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed rate financial instruments attributable to interest rates.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
2012						
Interest rate swaps	Bonds	172	(38)	(38)	61	37
2011						
Interest rate swaps	Subordinated bonds	19	(30)	(5)	19	3

As at year end the hedges were both retrospectively and prospectively effective.

Cash flow hedges

The group is exposed to variability in cash flows arising from changes in base interest rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in other comprehensive income and transferred to the income statement when the cash flow affects the income statement.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Period in which the hedged cash flows are expected to occur and affect income statement	Ineffective portion recognised in the income statement
2012				
Cross currency swap	Fixed rate bonds	636	3 months to 5 years	–
2011				
Cross currency swap	Foreign currency bonds	356	3 months to 5 years	–

There are cash flow hedges during the year to mitigate interest rate and currency risk. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity.

For the year to 31 March 2011 R'million	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
51. Liquidity analysis of financial liabilities based on undiscounted cash flows							
Group							
2012							
Liabilities							
Deposits by banks	3 364	931	131	20	9 487	–	13 933
Derivative financial instruments	8 544	–	–	–	–	26	8 570
– Held-for-trading	8 544	–	–	–	–	–	8 544
– Held as hedges	–	–	–	–	–	26	26
Repurchase agreements and cash collateral on securities lent	7 686	–	–	–	3 803	6 685	18 174
Customer accounts (deposits)	79 137	41 184	17 955	18 521	18 533	764	176 094
Debt securities in issue	713	350	886	1 753	87	600	4 389
Liabilities arising on securitisation of own originated loans and advances	2	941	15	1 150	5 972	2	8 082
Liabilities arising on securitisation of other assets	157	335	–	–	–	–	492
Other liabilities including trading liabilities	6 760	1 369	231	214	352	584	9 510
Subordinated liabilities	1 508	–	–	–	5 851	2 269	9 628
On-balance sheet liabilities	107 871	45 110	19 218	21 658	44 085	10 930	248 872
Contingent liabilities	1 457	194	112	412	3 714	2 809	8 698
Commitments	742	168	280	3 478	10 712	16 052	31 432
Total liabilities	110 070	45 472	19 610	25 548	58 511	29 791	289 002
2011							
Liabilities							
Deposits by banks	2 350	930	912	6 535	229	–	10 956
Derivative financial instruments	10 376	9	14	15	81	–	10 495
– Held-for-trading	10 342	–	–	–	–	–	10 342
– Held as hedges	34	9	14	15	81	–	153
Repurchase agreements and cash collateral on securities lent	10 946	–	–	–	–	–	10 946
Customer accounts (deposits)	68 697	35 122	15 351	17 849	16 146	1 339	154 504
Debt securities in issue	644	382	425	2 728	523	440	5 142
Liabilities arising on securitisation of own originated loans and advances	737	588	11	198	4 757	19	6 310
Liabilities arising on securitisation of other assets	135	1 108	–	–	–	–	1 243
Other liabilities including other trading liabilities	6 090	559	753	405	550	496	8 853
Subordinated liabilities	–	–	–	180	3 828	2 858	6 866
On-balance sheet liabilities	99 975	38 698	17 466	27 910	26 114	5 152	215 315
Contingent liabilities	953	9	83	1 036	4 406	2 296	8 783
Commitments	696	148	301	2 855	11 697	12 592	28 289
Total liabilities	101 624	38 855	17 850	31 801	42 217	20 040	252 387

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore, loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the up to one month time bucket, and not by contractual maturity, because trading liabilities are typically held for short periods of time. For an analysis based on discounted cash flows, please refer to page 73.

52. Reclassifications

Income statements

The previously reported principal transaction income line item has been split into the following line items:

- **Investment income:** income, other than margin, from securities held for the purpose of generating interest yield, dividends and capital appreciation
- **Client flow trading income:** income from trading activities arising from facilitating client activities
- **Income from balance sheet management and other trading activities:** includes proprietary trading income and other gains and losses as well as income earned from the balance sheet management desk.

With the continued reduction in insurance activity, it is deemed appropriate to move the associated line items to other operating income.

For the year to 31 March 2011 R'million	New format	As previously reported	Reclassifications
Group			
Interest income	15 257	15 257	–
Interest expense	(11 481)	(11 481)	–
Net interest income	3 776	3 776	–
Fee and commission income	3 711	3 711	–
Fee and commission expense	(84)	(84)	–
Principal transactions	–	1 825	(1 825)
Investment income	1 239	–	1 239
Trading income arising from			
– customer flow	308	–	308
– balance sheet management and other trading activities	278	–	278
Operating loss from associates	–	(17)	17
Investment income on assurance activities	–	720	(720)
Premiums and reinsurance recoveries on insurance contracts	–	68	(68)
Other operating income	188	59	129
Claims and reinsurance premiums on insurance business	–	(642)	642
Total operating income before impairment on loans and advances	9 416	9 416	–
Company			
Interest income	100	100	–
Interest expense	(27)	(27)	–
Net interest income	73	73	–
Fee and commission income	2	2	–
Fee and commission expense	–	–	–
Principal transactions	1 617	–	1 617
Investment income	–	1 617	(1 617)
Trading income arising from			
– customer flow	–	–	–
– balance sheet management and other trading activities	–	–	–
Operating loss from associates	–	–	–
Investment income on assurance activities	–	–	–
Premiums and reinsurance recoveries on insurance contracts	–	–	–
Other operating income	–	–	–
Claims and reinsurance premiums on insurance business	–	–	–
Total operating income before impairment on loans and advances	1 692	1 692	–

52. Reclassifications (continued)

Balance sheets

The main driver behind the revision to the balance sheet is to enable a better understanding of Investec's exposures and to minimise reconciliation points to the detailed risk disclosures in the annual report.

It is noted that there are no measurement changes nor are there any changes to total assets, liabilities, equity and the cash flow statement.

Each category of reclassification is noted below:

- Cash equivalent corporate paper
  Cash equivalent advances to customers has been renamed to 'non-sovereign and non-bank cash placements'. These balances represent short-term placements in corporates that run an in-house treasury function.

- Loans and securitisation
  To better align the balance sheet with the group's risk management disclosures, loans and advances and securitised assets that form part of our 'core' lending activities has been separated from assets that are in warehoused facilities and structured credit investments arising out of our securitisation and principal finance activities. This has resulted in a need to split loans and advances and securitised assets into two balance sheet categories for each.

  Securitised liabilities has been split into two line items to enable the relationship with securitised assets to be clearly identified.

- Securities reclassification
  The group's previous balance sheet split securities (other than lending related) into two key line items being trading and investment securities. This classification was driven by the accounting rule sets that mainly distinguish between instruments fair valued through profit and loss, those carried at amortised cost (held to maturity) and those fair valued through equity (available-for-sale). The group is of the view that disclosure of the nature of exposures on the balance sheet, distinguishing between instruments held to manage balance sheet liquidity, as principal exposure and balance sheet instruments arising from trading desk activities provides more meaningful disclosure on the face of the balance sheet. The line item 'Securities arising from trading activities' includes all instruments (other than derivative instruments) that are held on balance sheet in relation to trading activities.

At 31 March R'million	New format	As previously reported	Reclassifi-cations	Cash equivalent corporate paper	Loans and securiti-sation	Securities reclassifi-cation
52. Reclassifications (continued)						
2011						
Group						
Total assets reclassified						
Cash equivalent advances to customers	–	5 829	(5 829)	(5 829)	–	–
Non-sovereign and non-bank cash placements	5 829	–	5 829	5 829	–	–
Sovereign debt securities	29 172	–	29 172	–	–	29 172
Bank debt securities	18 169	–	18 169	–	–	18 169
Other debt securities	4 588	–	4 588	–	–	4 588
Trading securities	–	48 611	(48 611)	–	–	(48 611)
Securities arising from trading activities	2 872	–	2 872	–	–	2 872
Investment securities	–	13 924	(13 924)	–	–	(13 924)
Investment portfolio	7 411	–	7 411	–	–	7 411
Loans and advances to customers	114 450	115 234	(784)	–	(784)	–
Securitised assets	–	8 286	(8 286)	–	(8 286)	–
Own originated loans and advances to customers securitised	6 334	–	6 334	–	6 334	–
Other loans and advances	784	–	784	–	784	–
Other securitised assets	1 952	–	1 952	–	1 952	–
Other assets	5 238	4 915	323	–	–	323
	196 799	196 799	–	–	–	–
Total liabilities reclassified						
Liabilities arising on securitisation	–	7 553	(7 553)	–	(7 553)	–
Liabilities arising on securitisation of own originated loans and advances	6 310	–	6 310	–	6 310	–
Liabilities arising on securitisation of other assets	1 243	–	1 243	–	1 243	–
	7 553	7 553	–	–	–	–

At 31 March R'million	New format	As previously reported	Reclassifi-cations	Cash equivalent corporate paper	Loans and securiti-sation	Securities reclassif-ication
52. Reclassifications (continued)						
2010						
Group						
Total assets reclassified						
Cash equivalent advances to customers	–	6 455	(6 455)	(6 455)	–	–
Non-sovereign and non-bank cash placements	6 455	–	6 455	6 455	–	–
Sovereign debt securities	18 749	–	18 749	–	–	18 749
Bank debt securities	13 706	–	13 706	–	–	13 706
Other debt securities	2 099	–	2 099	–	–	2 099
Trading securities	–	43 268	(43 268)	–	–	(43 268)
Securities arising from trading activities	5 432	–	5 432	–	–	5 432
Investment securities	–	3 163	(3 163)	–	–	(3 163)
Investment portfolio	6 136	–	6 136	–	–	6 136
Loans and advances to customers	110 910	111 932	(1 022)	–	(1 022)	–
Securitised assets	–	9 996	(9 996)	–	(9 996)	–
Own originated loans and advances to customers securitised	7 245	–	7 245	–	7 245	–
Other loans and advances	1 022	–	1 022	–	1 022	–
Other securitised assets	2 751	–	2 751	–	2 751	–
Other assets	7 628	7 319	309	–	–	309
	182 133	182 133	–	–	–	–
Total liabilities reclassified						
Liabilities arising on securitisation	–	8 152	(8 152)	–	(8 152)	–
Liabilities arising on securitisation of own originated loans and advances	7 748	–	7 748	–	7 748	–
Liabilities arising on securitisation of other assets	404	–	404	–	404	–
	8 152	8 152	–	–	–	–
Company						
2011						
Total assets reclassified						
Trading securities	–	97	(97)	–	–	(97)
Investment portfolio	97	–	97	–	–	97
	97	97	–	–	–	–
2010						
Total assets reclassified						
Trading securities	–	288	(288)	–	–	–
Investment portfolio	288	–	288	–	–	–
	288	288	–	–	–	–

Contact details

Mauritius, Ebéne Cyber City

Level 8C Cyber Tower II
Ebéne Cyber City
Telephone (230) 403 0400
Facsimile (230) 403 0498
e-mail info@investec.com

Mauritius, Port Louis

6th Floor Dias Pier Building
Le Caudan Waterfront Caudan
Port Louis
Telephone (230) 207 4000
Facsimile (230) 207 4002
e-mail info@investec.com

South Africa, Cape Town

36 Hans Strijdom Avenue
Foreshore Cape Town 8001
PO Box 1826 Cape Town 8000
Telephone (27 21) 416 1000
Facsimile (27 21) 416 1001

South Africa, Durban

5 Richefond Circle
Ridgeside Office Park
Umhlanga Durban 4319
PO Box 25278 Gateway Durban 4321
Telephone (27 31) 575 4000
Facsimile (27 865) 009 901

South Africa, East London

1st floor Pilot Mill House The Quarry
Selbourne East London 5247
PO Box 19484 Tacoma 5214
Telephone (27 43) 721 0660
Facsimile (27 43) 721 0664

South Africa, Johannesburg

100 Grayston Drive
Sandown Sandton 2196
PO Box 785700 Sandton 2146
Telephone (27 11) 286 7000
Facsimile (27 11) 286 7777
e-mail, South African offices

- Recruitment queries recruitment@investec.co.za
- Client queries
  - Asset management: comcentre@investecmail.com
  - Institutional Securities: securities@investec.co.za
  - Private Client Securities: iso@investec.co.za
  - Property Group: ipg@investec.co.za
  - Private Bank: privatebank@investec.co.za
  - Capital Markets: info-tsf@investec.co.za

South Africa, Knysna

TH24/TH25 Long Street Ext
Thesen Harbour Town Knysna 6571
Telephone (27 44) 302 1800
Facsimile (27 44) 382 4954

South Africa, Mbombela (formerly Nelspruit)

2nd floor 2 McAdam Street
Cnr McAdam and Rothery Streets
Mbombela 1200
PO Box 19428 The Village 1218
Telephone (27 13) 756 0900
Facsimile (27 13) 756 0990

South Africa, Pietermaritzburg

Acacia House Redlands Estate
1 George MacFarlane Lane
Pietermaritzburg 3201
PO Box 594 Pietermaritzburg 3200
Telephone (27 33) 264 5800
Facsimile (27 33) 342 1561

South Africa, Port Elizabeth

6th floor Fairview Office Park
66 Ring Road Greenacres
Port Elizabeth 6045
PO Box 27416 Greenacres 6057
Telephone (27 41) 396 6700
Facsimile (27 41) 363 1667

South Africa, Pretoria

Cnr Atterbury and Klarinet Streets
Menlo Park Pretoria 0081
PO Box 1882 Brooklyn Square 0075
Telephone (27 12) 427 8300
Facsimile (27 12) 427 8310

South Africa, Stellenbosch

Block D De Wagen Road Office Park
Stellentia Street Stellenbosch 7600
PO Box 516 Stellenbosch 7599
Telephone (27 21) 809 0700
Facsimile (27 21) 809 0730

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